5

ALBERTA
LEGISLATURE

REPORT OF THE

AUDITOR GENERAL

FOR THE YEAR ENDED MARCH 31, 1982

Alberta Legislature

Office of the Auditor General

The Chairman of the Select Standing Committee
of the Legislative Assembly on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1982, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

D. W. Ryan

C.A.
Auditor General

Edmonton, Alberta
February 14, 1983

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REPORT OF THE AUDITOR GENERAL OF ALBERTA
FOR THE YEAR ENDED
MARCH 31, 1982

1 INTRODUCTION

1.1 FOREWORD

1.1.1 This is the fourth Annual Report of the Auditor General to the Legislative Assembly of Alberta. It covers the fiscal year of the Crown ended March 31, 1982 and discharges the reporting requirements of section 19 of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The Auditor General Act is reproduced in Appendix I of this report.

Since much of the work necessary to audit financial statements for the 1981-82 fiscal year was performed after March 31, 1982, certain matters covered by this report arise from audit activity during the 1982-83 fiscal year of the Crown.

1.1.2 This report contains five sections:

Section 1 — contains introductory comments and the Auditor General's overall assessment of the manner in which the Province's financial affairs were administered during the 1981-82 fiscal year.

Section 2 — contains observations and recommendations arising from audits covering the 1981-82 fiscal year and explains how topics were selected for inclusion in this report.

Section 3 — contains a commentary on the Public Accounts of the Province, including the Consolidated financial statements of the Province, and the financial statements of the General Revenue Fund and the Alberta Heritage Savings Trust Fund.

Section 4 — contains a description of the work, organization and activities of the Audit Office.

Section 5 — contains a cross-referenced tabulation of recommendations made throughout this report.

1.2 OVERALL ASSESSMENT

1.2.1 The contents of this report are prescribed by section 19 of the Auditor General Act. The report's purpose is to bring to the attention of the Legislative Assembly matters reportable under section 19 of the Act which were observed and are considered significant. Most matters reportable under section 19 are administrative shortcomings and irregularities. In some respects, therefore, this is a report by exception.

A report by exception cannot be, and is not intended to be, a balanced report. Accordingly, reports of this nature may emphasize shortcomings without giving credit for the many situations where no serious irregularities were observed. It should be noted that most audits performed by the Audit Office for the 1981-82 fiscal year revealed no shortcomings or irregularities considered worthy of reporting under section 19 of the Auditor General Act.

1.2.2 Based on the work of the Audit Office, it is the opinion of the Auditor General that the financial affairs of the Province of Alberta were administered in a generally satisfactory manner during the 1981-82 fiscal year.

This overall assessment does not detract from the significance of the audit observations and related recommendations contained in this report. Most recommendations for improvements to the design and operation of financial and management control systems have been communicated to and concurred with by management which has agreed to take corrective action.

1.3 ACKNOWLEDGEMENTS

1.3.1 The Auditor General acknowledges with gratitude the excellent co-operation and assistance extended by management and staff of departments, funds and Provincial agencies to staff and agents of the Audit Office during the course of their work.

1.3.2 Furthermore, in accordance with section 19(1)(b) of the Auditor General Act, it can be reported that, with the exception of the situation reported in subsection 2.7.1 of this report, the Auditor General received all the information, reports and explanations required to carry on the work of the Audit Office for the 1981-82 fiscal year.

2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

2.1 INTRODUCTION

Reporting Criteria

2.1.1 When selecting observations and recommendations for inclusion in his Annual Reports to the Legislative Assembly, the Auditor General exercises judgement as required by two sections of the Auditor General Act:

Section 25 — does not require Annual Reports to include matters which, in the opinion of the Auditor General, are immaterial or insignificant.

Section 19(5) — allows the Auditor General to refrain from reporting deficiencies in systems and procedures otherwise subject to report under section 19(2)(d) and (e) of the Act when such deficiencies, in his opinion, have been or are being rectified.

These sections of the Act provide the Auditor General with discretionary reporting powers and allow Annual Reports to the Legislative Assembly to concentrate on the more important reportable matters.

2.1.2 When exercising these discretionary powers, the circumstances surrounding each potentially reportable system deficiency are considered. Assurances by management that corrective action has been, or is being, taken to eliminate the observed deficiency will affect, though not determine, the decision whether or not to include the matter in the Annual Report.

Notwithstanding the above, it should not be concluded that management has not begun to take steps, or is unwilling to take steps, to rectify system deficiencies included in this report. Where observed deficiencies are sufficiently prevalent and/or significant, they are included even though steps are being taken, or have been taken, to rectify them.

Occasionally it is found that management has not taken the action promised to eliminate a system deficiency, or that the action taken was ineffective. In these circumstances, the matter is normally included in the Annual Report, even where further assurances of remedial action are received. These matters are highlighted by including them in a separate subsection of this report (see subsection 2.6 – Uncorrected Systems Weaknesses and Deficiencies Originally Detected in Previous Years).

2.1.3 Exercising his discretionary reporting powers in this fashion enables the Auditor General to influence management to correct system deficiencies in a timely manner. A further advantage is that the Annual Report to the Legislative Assembly is not cluttered with observations on system deficiencies, most of which are rectified before the report is tabled.

Annual Report Recommendations

2.1.4 In Annual Reports of the Auditor General for previous years, formal recommendations were consecutively numbered. In addition, a complete tabulation of all recommendations was included in the final section of the reports. This format is again used in this report.

The report also continues the practice of bringing forward from previous Annual Reports recommendations which remain unimplemented. Furthermore, so that readers can determine how long a recommendation has remained outstanding, the fiscal year of the Annual Report in which the recommendation first appeared is noted in parentheses above and to the right of the repeated recommendation. Recommendations are similarly dated in circumstances where, although the wording has changed, the main thrust of the recommendation remains the same.

The 1980-81 Annual Report of the Auditor General was laid before the Legislative Assembly in March 1982. As several of the recommendations contained therein were of general or broad application, they were not communicated to management prior to issuing the report. In addition, some recommendations in that report required discussion and decisions by management while others necessitated legislative changes and/or systems development and implementa-

tion, all of which needed further time. For these reasons, it is not reasonable to expect that all matters previously reported should be dealt with before publication of this report.

2.1.5 In past years, the Provincial Treasurer responded formally to each recommendation contained in the Auditor General's Annual Reports. These responses were contained in reports from the Provincial Treasurer to the Select Standing Committee on Public Accounts. Because there was no fall session of the Legislature during 1982, the Select Standing Committee on Public Accounts did not meet during the fall of 1982. Accordingly, at the date of this report, the Auditor General had not received official Government responses to the recommendations in his Annual Report for the 1980-81 fiscal year.

In the absence of official responses, it has been necessary for the Auditor General to carry forward many of the 1980-81 recommendations to this Annual Report together with the observations which originally gave rise to them. Where the Audit Office has observed, however, that satisfactory corrective action has been taken, such action is acknowledged in this Annual Report and the recommendation is not repeated.

Communication of Audit Observations

2.1.6 At the conclusion of all audits, formal meetings (exit conferences) are held to discuss audit findings and recommendations. Exit conferences are attended by Audit Office representatives and senior financial and other management officials of the auditee. The main purposes of these meetings are to ensure that management is fully apprised of all matters arising from the audit, to discuss proposed recommendations for corrective action and to provide an opportunity for comments by management before the report on the financial statements and the management letter are issued. Minutes of matters discussed are prepared by the Audit Office and are circulated to all who attended the meetings, thereby minimizing the risk of misunderstandings in connection with matters raised or action promised.

Subsequently, audit observations and recommendations judged by the Auditor General to be of concern to management, are incorporated into a management letter to the deputy minister or senior executive officer responsible for the audit entity. Copies of all management letters are forwarded to the appropriate minister and to the Secretary to the Treasury Board, except for Provincial agencies exempt under section 2(5) of the Financial Administration Act.

General

2.1.7 In the remainder of this section of the report, occasional references are made to the Treasury Department's Manual of Financial Administration. This manual was issued by the Office of the Controller pursuant to section 13 of the Financial Administration Act under authority delegated by the Provincial Treasurer to prescribe administrative procedures respecting financial records and accounting systems and the receipt and disbursement of public money. The Manual of Financial Administration complements the Alberta Financial Information System (AFIS) User Manual which is designed for use by senior administrators and financial officers in exercising an overall system of internal control for their departments.

Reservations in Auditor's Reports on Financial Statements

2.1.8 Audit observations published in this report are the culmination of only a small portion of the annual activities of the Audit Office. It is believed that priority must always be given to the audit work necessary to issue auditor's opinions on the annual financial statements of Provincial agencies, regulated funds, revolving funds, the General Revenue Fund and other organizations of which the Auditor General is auditor. Most of these audited financial statements collectively comprise the Public Accounts of the Province which, in turn, are the principal evidence of financial accountability available to the Legislative Assembly.

2.1.9 The Auditor General expressed reservations in his opinions on the financial statements of eleven entities audited pursuant to section 12(a) of the Auditor General Act (reported as required by section 19(2) of the Act):

— Four reservations were because certain public colleges had not disclosed on their balance sheet assets transferred from the Department of Advanced Education and Manpower (See subsection 2.4.8 of this report).

— Four reservations resulted from an inability to audit the completeness of reported revenue from donations.

— One reservation was because there was insufficient information to verify the adequacy of certain reserves and the adequacy of an estimated liability for future claims' costs.

— One reservation was because there was insufficient information to verify the ownership and value of certain fixed assets, including assets for research projects (See subsection 2.6.1 of this report).

— One reservation was because payments were made from a regulated fund without statutory authority (See subsection 2.3.9 of this report).

In all other cases, the Auditor General reported without reservation that the financial statements examined presented fairly the financial position of the entity at March 31, 1982 (or such other accounting period within the year ended March 31, 1982), and the results of its operations for the periods covered by the statements, in accordance with generally accepted accounting principles or other disclosed basis of accounting.

Subsequent Events – Trust Company Deposits

2.1.10 This Annual Report was finalized shortly after the Government of the Province of Ontario began investigating the financial affairs of Crown Trust Co., Greymac Trust Co., and Seaway Trust Co. The uncertainties caused by the investigation and its attendant publicity have raised concerns regarding the funds deposited with the three trust companies. An Audit Office review revealed that at January 25, 1983, the Province of Alberta and its agencies held the following investments.

Name of Organization	Investment	Amount
Alberta Hail and Crop Insurance Corporation	Crown Trust Co. Short-term deposits	$12,500,000
Public Trustee (Common Fund)	Crown Trust Co. Short-term deposits	2,000,000
The University of Lethbridge	Greymac Trust Co. Guaranteed investment certificates	1,970,005
The Alberta Cultural Heritage Foundation	Crown Trust Co. Short-term deposits	400,000
		$16,870,005

2.2 ALBERTA HERITAGE SAVINGS TRUST FUND

In February 1982, the Auditor General issued a special report on certain matters related to the Alberta Heritage Savings Trust Fund. The report contained five recommendations for strengthening the Fund's financial control and improving accountability to the Legislative Assembly. These recommendations were repeated in the Auditor General's Annual Report for 1980-81 which was tabled a month later in March 1982.

In September 1982, while appearing before the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act, the Provincial Treasurer responded on behalf of the Government to the five recommendations.

The following are the five recommendations and the Government's responses thereto, the action taken and the Auditor General's comments thereon:

2.2.1 Recommendation: (No. 1: 1980-81)

It is recommended that consideration be given to amending the Alberta Heritage Savings Trust Fund Act to require investments in Provincial corporations and other government entities, under the Alberta Heritage Savings Trust Fund's Alberta Investment Division, to be first appropriated from the Trust Fund by an Act of the Legislature.

Government Response:

"The Government agrees that it would now be appropriate for the Legislature to approve in advance investments in Crown corporations (Alberta Government Telephones, Alberta Municipal Financing Corporation, Alberta Home Mortgage Corporation, Alberta Housing Corporation, Alberta Agricultural Development Corporation, Alberta Opportunity Company) under the Alberta Investment Division of the Heritage Fund, with appropriate mechanisms to allow flexibility for unforeseen circumstances. Accordingly, appropriate amendments to the Alberta Heritage Savings Trust Fund Act will be proposed to the Legislature."

As at the date of this report, the Alberta Heritage Savings Trust Fund Act had not been amended as recommended.

2.2.2 Recommendation: (No. 2: 1980-81)

It is recommended that the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act exercise similar powers to those of the Select Standing Committee on Public Accounts with respect to the financial affairs of Provincial corporations and other government entities which borrow from the Alberta Heritage Savings Trust Fund.

Government Response:

"The Government agrees that the Select Standing Committee on the Alberta Heritage Savings Trust Fund could exercise similar powers to those of the Select Standing Committee on Public Accounts with respect to the financial affairs of Provincial corporations and other government entities which borrow from the Heritage Fund. Ministers responsible for Provincial corporations already appear before the Select Standing Committee on the Heritage Fund and answer questions respecting the financial affairs of those entities. If the Select Standing Committee on the Heritage Fund is to continue to exercise these powers, the resulting duplication of effort by Select Standing Committees should be avoided by the Legislature removing those powers of review of Provincial corporations and entities from the Select Standing Committee on Public Accounts."

It would appear to be unnecessary, and perhaps undesirable, to remove the powers of the Select Standing Committee on Public Accounts to review the financial affairs of Provincial corporations and other entities that borrow from the Heritage Fund. The duties of the two Select Standing Committees are defined in statute and Standing Orders in broad and general terms. Both have authority to review the financial affairs of the Heritage Fund and Provincial corporations which borrow from it.

Limiting the existing powers of either committee could reduce its effectiveness. Furthermore the financial activities of a Provincial corporation which may interest one committee may be different from the financial activities of the same corporation which the other committee may

decide to review. For example, the Heritage Fund Committee may wish to review how a corporation spends monies advanced to it by the Heritage Fund, whereas the Public Accounts Committee may, in any given year, be more interested in reviewing the corporation's revenue systems. It would appear, therefore, that duplication of effort is best avoided by liaison between the two committee chairmen, rather than by legislative change.

2.2.3 Recommendation: (No. 3: 1980-81)

> It is recommended that the Treasury Department establish an internal audit group, with an appropriate mandate and reporting structure, to review the administrative and performance measurement systems of the Alberta Heritage Savings Trust Fund on a continuing basis.

Government Response:

> "The Government agrees in principle to establish an internal audit function in Alberta Treasury, which will apply to and which will in fact go beyond the Heritage Fund in respect to the maintenance of financial controls and to ensure compliance with systems and procedures."

At the date of this report, the Treasury Department has not established an internal audit group to review the administrative and performance measurement systems of the Heritage Fund. However, a committee has been established which is planning the structure, scope and responsibilities of a proposed internal audit unit.

As stated earlier, the Auditor General's recommendation (No. 3: 1980-81) was originally made in a special report on certain matters related to the Heritage Fund. The special report was concerned mainly with the Heritage Fund's residual (or section 10) investments. The Auditor General agrees, however, that an internal audit group with responsibilities which encompass all significant investment portfolios administered by the Treasury Department is a natural extension of his original recommendation. Among the duties of the internal audit group should be verifying that investment trading complies with the investment strategies established by senior management and legislative policy.

2.2.4 Recommendation: (No. 4: 1980-81)

> It is recommended that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparisons of the performance of the Heritage Fund with the performance of similar investment entities. Furthermore, consideration could be given to making the performance comparison information obtained from the independent investment analyst available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act.

Government Response:

> "The Government already has complied with the spirit of the recommendation which is to ensure that the Government is accountable for effectiveness in managing the Alberta Heritage Savings Trust Fund. The Heritage Fund annual reports for 1980-81 and 1981-82 report the rate of return and yield to maturity on the Heritage Fund's investments. An independent investment analyst does not perform any analysis per se on the Heritage Fund's investments but would merely calculate rates of return (using the same computation methods but a different valuation basis than currently reported) and compares the results with results maintained in data banks for a range of other investment funds. Clearly it is a matter of judgement as to whether the resulting comparisons are appropriate and meaningful. It would not be appropriate to have such comparisons presented to the Select Standing Committee on an ongoing basis because it has not been demonstrated that valid performance comparisons can be made for the Heritage Fund in the absence of similar investment entities. For example, there are no other funds which would be contained in the data banks used by the comparative measurement services having an objective "to earn a reasonable return and strengthen or diversify the Alberta economy"."

Including rates of return and yields to maturity on the investments of the Heritage Fund in its Annual Report for 1980-81 and 1981-82 was an important step in the direction of improved

accountability. As indicators of past performance and future expectations, these statistics assist in assessing the effectiveness of investment management.

However, in addition to the benefits available from comparing the performance of one time period against another, benefits can be gained by comparing Heritage Fund rates of return with rates of return achieved by similar entities during the same time period. To accomplish this the method of computation, including the valuation of the capital base, must be appropriate and uniform as between the entities compared. A capable independent investment analyst would be able to identify similar entities within the data bank to which he has access, would be able to determine and compute appropriate comparable rates of return for each such entity, and would be able to present the results of these comparisons in a manner suitable for consumption by non-investment personnel.

While it is recognized that the analyst would encounter difficulty finding entities similar to the Heritage Fund in its entirety, considerable scope exists for comparison between the section 10 portfolio and other investment entities. The objectives of the section 10 portfolio do not encompass the wide and unique objectives of the Heritage Fund; rather, the more limited objectives of many investment entities (optimizing return in the light of the need for protection of capital and the flexibility of liquidity) have considerable applicability to the section 10 investments. The recommendation to retain the services of an independent investment analyst to, inter alia, furnish the Select Standing Committee with performance comparisons (No. 4: 1980-81) was originally made in the special report referred to in paragraph 2.2 and, as such, was directed towards the residual investments of the Heritage Fund held pursuant to section 10 of the Alberta Heritage Savings Trust Fund Act.

Since the Auditor General's original recommendation and the rationale therefor appear to have been misunderstood, the recommendation is repeated herein, albeit in a modified form to convey the narrower interpretation intended.

Recommendation: (No. 1) *(1980-81: No. 4)*

It is recommended that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparisons of the performance of the Alberta Heritage Savings Trust Fund's section 10 investments with the performance of similar investment portfolios. This comparative performance information would complement the rate of return and yield on investments information now published in the Fund's annual reports. Furthermore, consideration could be given to making both types of performance information available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act.

2.2.5 Recommendation: (No. 5a: 1980-81)

It is recommended that each published annual report of the Alberta Heritage Savings Trust Fund contain a positive representation by the Provincial Treasurer relating to the adequacy of the Trust Fund's internal control system.

Recommendation: (No. 5b: 1980-81)

It is recommended that each published annual report of the Alberta Heritage Savings Trust Fund contain a report by the Auditor General on the reasonableness of the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system.

Recommendation: (No. 5c: 1980-81)

It is recommended that the annual financial statements of the Alberta Heritage Savings Trust Fund and the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system, together with the reports of the Auditor General on both of these, be subject to review each year by the Audit Committee established pursuant to section 21 of the Auditor General Act before the Trust Fund's annual report is published.

Recommendation: (No. 5d: 1980-81)

It is recommended that the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act meet at least once each year to consider the financial statements of the

Alberta Heritage Savings Trust Fund and the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system, together with the reports of the Auditor General on both of these, and that the Provincial Treasurer and the Auditor General be in attendance.

Government Response:

"It is not appropriate to implement these recommendations at this time in view of reservations expressed by and the lack of any definitive recommendations in the Canadian Institute of Chartered Accountants' Reports regarding management representation on internal control in annual reports. The Government supports the alternative suggestion by the Auditor General, made to the Select Standing Committee on the Alberta Heritage Savings Trust Fund on August 9, 1982 that any matters pertaining to the Heritage Fund worthy of being included in the Auditor General's report would be the subject of a special report under section 20 of the Auditor General Act. Thus any significant matters pertaining to the Fund in any year could be brought to the attention of the Committee during its deliberations with respect to that year."

In view of this response, the Auditor General will in future issue a report under section 20 of the Auditor General Act at the conclusion of annual audits of the Heritage Fund when any matters are observed which, in his opinion, should be brought to the attention of the Legislative Assembly. This report will be available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act when it reviews the annual financial statements of the Heritage Fund.

Although all reports issued pursuant to section 20 of the Auditor General Act are subject to review by the Audit Committee before they are tabled in the Legislative Assembly, annual reports of the Heritage Fund are not subject to the same procedure. It is because the Heritage Fund has become a significant portion of the total Alberta "public purse", that the original recommendation (No. 5c: 1980-81) suggested that its financial statements (annual report) and the auditor's report thereon should be reviewed by the Audit Committee prior to publication. Since this matter is not addressed by the 'alternative suggestion' referred to above, the recommendation is repeated.

Recommendation: (No. 2) *(1980-81: No. 5c)*

It is recommended that the annual financial statements of the Alberta Heritage Savings Trust Fund together with the report of the Auditor General thereon, be subject to review each year by the Audit Committee established pursuant to section 21 of the Auditor General Act before the Trust Fund's annual report is published.

2.3 INADEQUATELY SAFEGUARDED ASSETS AND NON-COMPLIANCE WITH LEGISLATION

(Reported pursuant to subsections 19(2)(a), (b) and (c) of the Auditor General Act.)

2.3.1 CORPORATE TAX REFUNDS

The Province of Alberta refunded, without statutory authority, Provincial income tax instalments received from corporations.

As explained more fully in section 3.3.7 of this report, Provincial income taxes from corporations for fiscal periods beginning before January 1, 1981, were collected by the Government of Canada and remitted to the Province. For fiscal periods beginning on or after January 1, 1981, however, these corporations pay Provincial income taxes directly to the Province.

The Alberta Corporate Income Tax Act requires some corporations to pay income tax instalments on account and, within six months of the end of their fiscal periods, requires them to file tax returns. The information provided in the tax returns is used to assess income taxes, interest and penalties payable and to determine any refundable tax credits and tax refunds. The Act allows the Province, on mailing a notice of assessment for a taxation year, to refund any income tax overpayment. The Act does not empower the Province to refund income tax overpayments before that time.

An amendment to the Act in May 1982 exempted corporations with annual taxable incomes of less than $500,000 which claimed a small business deduction, from paying income tax instalments as from April 1, 1982. The amendment did not address refunding income tax instalments already paid by these corporations.

During 1981 and 1982, the general economic downturn caused many corporations to reduce their estimates of income tax liabilities. Some corporations found that income tax instalments already paid exceeded their estimated tax liabilities and, although the Act does not provide for it, they asked the Province to refund those instalments. Recognizing the economic difficulties being experienced by these corporations and in accordance with the spirit of the 1982 amendment to the Act, the Provincial Treasurer refunded income tax instalments already paid, even though he was aware that the Act did not permit this to be done.

This matter is reported herein as required by section 19(2)(b) of the Auditor General Act. It is an observation on how the Provincial Treasurer resolved a situation which apparently was not contemplated by the legislation.

Recommendation: (No. 3)

It is recommended that consideration be given to amending the Alberta Corporate Income Tax Act to allow the Provincial Treasurer discretion, in special circumstances, to refund income tax instalments received.

2.3.2 DEPARTMENT OF ENERGY AND NATURAL RESOURCES – MINERAL REVENUE AUDITS

The Auditor General's 1980-81 Annual Report commented on the need for the Department of Energy and Natural Resources to ensure that the Province collects the resource royalties to which it is entitled. In particular, deficiencies were observed in the methods used by and the audit coverage achieved by the Department's Mineral Revenues Division Audit Section.

During 1981-82, the Department established a policy governing the frequency with which it audits the records of resource royalty payers. It also acquired additional staff for the Mineral Revenues Division Audit Section and issued a manual describing audit methods and standards. As a result of the increased audit activity, the Department has claimed substantial amounts of royalty underpayments which more than compensate for the costs of administering the Mineral Revenues Division Audit Section. Accordingly, the recommendations contained in the Auditor General's 1980-81 Annual Report in connection with these matters are not repeated in this report.

The audits performed by the Mineral Revenues Division Audit Section are an important control in ensuring that the Province receives the resource royalties to which it is entitled. Consequently, as a normal part of his duties, the Auditor General will wish to evaluate the effectiveness of the Section's activities. This can be done partially by reviewing the audit working paper files prepared by Mineral Revenues Division Audit Section staff. Occasionally, however, the Auditor General may wish to review the Section's activities by having his staff join with Mineral Revenues Division Audit Section staff in auditing the financial records of a royalty payer. At present, the Auditor General does not have this access right and may participate in Mineral Revenues Division Audit Section audits only with the concurrence of the Minister of Energy and Natural Resources.

In his 1980-81 Annual Report the Auditor General recommended that he be given independent access rights to participate in Mineral Revenues Division Audit Section audits. Although no formal responses were received to the recommendations contained in the 1980-81 Annual Report, the Department has indicated that it is willing to allow the Audit Office to participate in its audits for the purpose of evaluating Departmental auditing procedures.

Recommendation: (No. 4) *(1980-81: No. 8)*

It is recommended that provision be made in legislation giving the Auditor General access rights, similar to those of the Department of Energy and Natural Resources, to the appropriate records of organizations liable to pay royalties, subject to the limitation that such access is for the sole purpose of joining, at his discretion, any Departmental audit in progress. This will enable him to evaluate the auditing performed by the Mineral Revenues Division Audit Section.

2.3.3 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH – IMPROPERLY APPROVED EXPENDITURE

The Department of Social Services and Community Health attempted to pay 1982-83 expenditures out of funds appropriated by the Legislative Assembly for the 1981-82 fiscal year.

Each year, the Legislative Assembly passes an Appropriation Act which appropriates money for departmental expenditures from the Province's General Revenue Fund. Estimates of Expenditure supporting amounts contained in Appropriation Acts prescribe expenditure objectives, types and limits, as well as the fiscal years in respect of which the money may be spent. If appropriated monies remain unspent at the end of the fiscal year for which they were provided, the authority to spend them lapses and they remain in the General Revenue Fund. Accordingly, there is sometimes a temptation for departments to avoid allowing unspent appropriations to lapse by charging against them expenditures incurred in the following fiscal year. This practice clearly contravenes the provisions of the Financial Administration Act and the annual Appropriation Acts.

During the annual audit of the Department of Social Services and Community Health for the fiscal year ended March 31, 1982, it was observed that the Department had attempted to pay some 1982-83 expenditures out of monies appropriated for 1981-82. In April 1982 the Department raised a purchase order to acquire three buses with delivery expected approximately ten months thereafter. The vendor's invoice, however, in the amount of $254,856 was dated March 31, 1982. Furthermore, one of the Department's Administrative Officers prepared a 'material report' showing that the buses were received on March 31, 1982, even though both the Officer and the Department's Director of Materials and Supplies knew that they would not be received until well after that date.

The Department then issued a request, signed by designated expenditure and accounting officers, for the Treasury Department's Disbursement Control Section to pay the vendor for the buses and charge the payment against 1981-82 appropriated funds. While processing the payment document the Disbursement Control Section questioned the transaction and although a cheque was produced, it was cancelled when the irregularities outlined above came to light. Subsequently, in the course of routine transaction testing for audit purposes, the Audit Office also discovered what had occurred.

There can be little doubt that this was a deliberate attempt to pay for goods not yet received using funds not approved for the purpose by the Legislative Assembly. The expenditure officer who approved the payment request knew, or should have known, that the buses had not been received, and that it was incorrect to pay for them with monies appropriated for the previous fiscal year. In addition, the accounting officer was apparently misled by the Administrative Officer who issued the material report showing incorrectly that the buses were received in March 1982. Even if he was not aware of the irregular nature of the transaction, his suspicions should have been raised as were those of the Treasury Department's Disbursement Control Section. Although the transaction was discovered during the annual audit, it was the alertness of the Disbursement Control Section that stopped the payment and prevented the Department contravening the provisions of the 1981-82 Appropriation Act.

Recommendation: (No. 5)

It is recommended that the Associate Deputy Minister of Social Services and Community Health direct the Department's expenditure and accounting officers to exercise more care in adhering to legislative requirements respecting the receipt of goods and services and payment therefor.

2.3.4 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH – PUBLIC ASSISTANCE OVERPAYMENTS

Weaknesses continue to exist in systems designed to prevent and recover public assistance overpayments under the Department's Social Allowance Program.

In the Auditor General's 1980-81 Annual Report, it was observed that public assistance overpayments and repayments outstanding had increased from $8.3 million at March 31, 1980 to $11.7 million at March 31, 1981.

Overpayments are social allowance payments in excess of the amount to which the recipient is entitled, whereas repayments are advances to cover rent and utility deposits, utility charges and property tax arrears, purchase of trade tools and similar outlays. In other words, overpayments result from mistakes, whereas repayments result from intentional advances or loans. Accordingly, increases in overpayments receivable are cause for concern, whereas increases in repayments receivable tend to reflect inflation or economic conditions.

The annual audit of the Department for 1981-82 revealed that the total receivable at March 31, 1982 increased by a further $1.8 million over the amount receivable at March 31, 1981. This increase would have been significantly greater had not uncollectible amounts of $1.2 million repayments receivable and $1.1 million overpayments receivable been written off during 1981-82. Before adjusting for uncollectibles, therefore, the total receivable increased between March 31, 1981 and March 31, 1982 by $4.1 million.

The audit also revealed that deficiencies still existed in the Department's systems and procedures to approve and process social allowance payments. The deficiencies observed during the 1980-81 audit were as follows:

(1) Data decision sheets were not processed quickly enough to prevent social allowance payments being made on the basis of outdated information.

Data decision sheets are forms used to record the information necessary to calculate social allowance payments. These forms are prepared at local district offices and forwarded to the Department's central office where the information they contain is input to the computer system which ultimately produces the cheques.

Where a recipient continues to be eligible for social allowance, the system will generate monthly cheques based on the information contained on the last data decision sheet processed. When a recipient ceases to be eligible, or the amount for which he or she is eligible changes, the local district office must submit the necessary information to the central office on a replacement data decision sheet.

Some overpayments occur when replacement data decision sheets are not input to the computer system in time to stop or amend the cheques. This can be caused either by

excessive time elapsing between preparation of replacement data decision sheets and their input to the computer systems, and/or early cut-off dates for input of data.

(2) Information contained in social allowance recipients' files was incomplete or outdated.

Overpayments occur where social workers do not review the status of recipients and update their files (and prepare appropriate replacement data decision sheets) on a sufficiently frequent basis. Similarly, overpayments occur where social workers have not verified the accuracy of information provided by social allowance recipients.

(3) Although it is acknowledged that circumstances may exist which render recovery impracticable, follow-up procedures to seek recovery of amounts overpaid to social allowance recipients appeared ill-defined and were not exercised consistently or energetically. In particular, many social workers appeared reluctant to involve themselves in collecting overpayments and the special overpayments collection unit was not large enough to pursue all overpayments.

(4) A significant number of social allowance cheques, which recipients had reported as being lost or stolen, were subsequently presented for payment, even though replacement cheques were issued and paid. In addition to resulting in overpayments, the volume of subsequently presented "stop payment" cheques caused certain financial institutions to be critical of the Department.

The 1981-82 audit revealed that procedures have been implemented to reduce the potential for abusing the replacement cheque system (#(4) above). In addition, recommendations for improvements to systems resulting from internal studies were considered by the Department's Management and Policy Committee. No evidence was found during the 1981-82 audit, however, to indicate that action has been taken to remedy the other systems deficiencies.

The Department expects many overpayment problems to be solved when it implements two new computer systems it is developing to administer the Social Allowance Program. In the opinion of the Auditor General, however, care should be taken not to expect too much in this regard. Most overpayments result from recipients knowingly or unknowingly providing incorrect personal information, from miscalculations by social workers and/or from delays in changing personal information on the computer system. A computer system cannot be expected to detect or prevent many of these deficiencies. Computer systems cannot substitute for the vigilance and conscientiousness of social workers in ensuring that social allowances are paid only to those who are entitled to receive them.

Pending introduction of the new computer systems and other action to correct the observed systems deficiencies, the original recommendation is repeated, though in modified form.

Recommendation: (No. 6) *(1980-81: No. 12)*

It is recommended that the Department of Social Services and Community Health strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:

— *procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date.*

— *procedures to ensure prompt preparation and processing of data decision sheets.*

— *procedures to follow-up and recover social allowance overpayments.*

The Auditor General's 1980-81 Annual Report also contained a recommendation that the Department discontinue the practice of reducing overpayments and repayments receivable, and the doubtful accounts allowance thereon, by one-third for annual financial statement presentation purposes. Since the practice was discontinued at March 31, 1982, the recommendation is not repeated.

2.3.5 DEPARTMENT OF THE ENVIRONMENT – LAND ACQUISITION AND ADMINISTRATION

The 1981-82 annual audit of the Department of the Environment revealed that the Department had not completely eliminated all of the previously observed deficiencies in its procedures for acquiring and administering real property.

For many years the Department's Land Assembly Division has been acquiring land for use as transportation and utilities corridors around major cities in Alberta. These corridors are called Restricted Development Areas (R.D.A.s). In the Auditor General's 1980-81 Annual Report it was recommended that the Department correct perceived deficiencies in its legislative authority and administrative systems relating to land in the R.D.A.s.

The problem areas and the action taken by the Department in response to Audit Office observations are as follows:

Lack of Legislative Authority to Administer Real Property

To correct the lack of legislative authority identified in the Auditor General's 1980-81 Annual Report, the Minister of the Environment was given explicit authority to administer real property in R.D.A.s by Orders in Council dated February 1982 issued pursuant to the Department of the Environment Act.

Deficiencies in Land Acquisition Procedures and Documentation

In response to observed deficiencies in the procedures and documentation used to acquire real property, the Department:

— commissioned a firm of management consultants to review the organizational structure and staffing,

— initiated a review of financial procedures by the Department's Financial Operations Division,

— requested a review of legal documentation by the Department of the Attorney General.

When the Audit Office completed the 1981-82 annual audit in the fall of 1982, the Department was in the process of considering the recommendations arising out of the three reviews. In addition, another firm of management consultants was about to begin a review of the Land Assembly Division's procedures preparatory to recommending a comprehensive management information system. Pending implementation of the recommendations arising from the aforementioned procedural reviews, the original recommendation is repeated herein in modified form.

Recommendation: (No. 7) *(1980-81: No. 9)*

It is recommended that the Department of the Environment continue with efforts to eliminate the deficiencies in its land acquisition and administration procedures and documentation.

Non-availability of Legal Advice When Needed

The Department usually obtains legal advice on matters relating to real property from the Department of the Attorney General. It contends, however, that legal advice is not always available when needed. The management consultants currently reviewing the Land Assembly Division's operating procedures have been asked to assess the requirements of the Division for legal advice. Pending resolution of this matter, the original recommendation is repeated.

Recommendation: (No. 8) *(1980-81: No. 10)*

It is recommended that in view of the nature of transactions effected by the Land Assembly Division of the Department of the Environment, arrangements be made to ensure that appropriate legal advice is available when needed.

2.3.6 EMPLOYER PENSION CONTRIBUTIONS

The annual audit of the Pension Fund for the year ended March 31, 1982, identified a concern with respect to the practice governing employer contributions collectible under four pension plans administered by the Province of Alberta.

The Pension Fund Act, Chapter 80, Statutes of Alberta 1980, established the Pension Fund and amended the statutes under which the four pension plans operate. In the case of the Public Service Pension Plan and the Public Service Management Pension Plan, these amendments require employers to make contributions, in direct proportion to the salary of each employee, with effect from April 1, 1981. Prior to that date, there was no separate pension fund and all pension contributions were paid to the General Revenue Fund. However, no employer pension contributions were required in respect of employees of the Province.

In administering these two Plans, the Payroll and Pensions Division of the Treasury Department took the view that employers' pension contributions should cease when, for any reason, the employees' contributions cease. Employees' pension contributions cease when employees attain sixty-five years of age or when they have contributed for a total of thirty-five years. However, neither the Public Service Pension Act nor the Public Service Management Pension Act provide for the cessation of related employer pension contributions in these circumstances. It is understood, however,that the intention was that employer contributions would cease when employee contributions cease and this has always been the practice.

The 1981-82 audit also identified a similar situation relating to the Local Authorities Pension Plan. Employees contributing to this plan are not Public Service employees. For this plan, the requirement to make employers' pension contributions dates back more than twenty years to the commencement of the plan on April 1, 1962. This requirement was established by a regulation of the Local Authorities Pension Act and, if necessary, could be amended by regulation.

The 1981-82 annual audit also revealed that a similar situation exists with employer's pension contributions under the M.L.A. Pension Plan. Under this plan, M.L.A.s' pension contributions cease when they have contributed for a total of twenty years, although a sixty-five year age limit does not apply.

Recommendation: (No. 9)

It is recommended that the Treasury Department consider seeking amendments to the various Acts or regulations, where appropriate, to provide for the cessation of employers' contributions when employees' contributions cease or comply with existing provisions of the Acts and regulations as they relate to employers' contributions.

2.3.7 FIXED ASSETS – CONTROL

The control exercised by the Government of Alberta over Provincially owned furniture and equipment continues generally to be inadequate and ineffective.

This is an important control deficiency because of the volume and value of assets involved. It is a situation which has persisted for many years and has received comment in each of the Auditor General's last three Annual Reports to the Legislative Assembly.

A fixed asset control system is not merely an accounting exercise. It is a necessary safeguard to minimize the risk of losing valuable assets. If assets are lost, the system must detect the loss so that investigative action can be taken without undue delay. The system should promote economy by reducing the incidence of lost or stolen assets and can promote efficiency by providing management with asset utilization information. The broader objectives of fixed asset control systems are recognized in the Treasury Department's Manual of Financial Administration which states that "a fixed asset control system's primary objective is to ensure protection of public property and to ensure that management achieves efficient utilization of fixed assets."

It is the responsibility of organizations having custody over fixed assets to establish control systems which provide management with the information it needs. As a basic minimum, that information should include all assets under the custody of the organization and where those assets are located.

It follows, therefore, that an adequate fixed asset control system has two basic prerequisites. The first is maintaining a list of all fixed assets having a significant and continuing value and which are under the organization's custodianship. The second is verifying regularly that the

assets on the list exist and can be accounted for. The list should indicate where the assets are located and the regular verification of its accuracy should be performed by staff who are independent of the custody and record-keeping functions.

These prerequisites are published in the Treasury Department's Manual of Financial Administration together with other guidelines for the design and maintenance of systems to record, account for and safeguard fixed assets. These guidelines have been clarified and strengthened in recent years, partly in response to recommendations in the Auditor General's Annual Reports. In few instances however, has this had the effect of producing systems which adequately and effectively control fixed assets. Annual audits have continued to reveal instances where lists of assets are not maintained or, more often, where the lists maintained are inaccurate, incomplete or out of date. In numerous instances, no meaningful efforts are made to ensure that all fixed assets which should be on hand are accounted for. Although 1981-82 annual audits revealed a marginal overall improvement and in some departments significant improvements in fixed asset control systems, the overall rate of progress cannot be considered satisfactory.

It is acknowledged that situations may arise where the cost of administering an effective fixed asset control system will outweigh the benefits to be derived. In these circumstances it may be appropriate for the Office of the Controller to grant formal dispensations exempting an organization or a class of assets from application of the guidelines contained in the Manual of Financial Administration.

Where management is not disposed towards establishing an adequate and effective fixed asset control system, it is easy to suggest that "it is not worth the effort." In these circumstances, care must be taken to ensure that this attitude is valid. It must be remembered that where no control system exists, or where the system is not maintained properly, it will usually not be possible for management or the Audit Office to determine whether assets have been lost or stolen.

Section 19(2)(c) of the Auditor General Act requires the Auditor General to report to the Legislative Assembly every significant case where he has observed that assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for. The Auditor General's Annual Reports for 1978-79 and 1979-80 contained fifteen and twenty-three management letter quotations respectively illustrating situations where annual audits revealed weaknesses and deficiencies in management control systems. Rather than include a similar number of management letter quotations for the 1980-81 fiscal year, two specific examples were chosen for detailed comment in the Annual Report for that year. These two examples were illustrative of the problems existing in many agencies and departments.

In response to recommendations by the Auditor General in past years that fixed asset control systems be improved, the Provincial Treasurer acknowledged the problem but offered little in the way of a solution. In the main, efforts by the Controller's Office to solve the problem appear to have been limited to providing more detailed guidelines in the Treasury Department's Manual of Financial Administration. Not surprisingly, this had limited effect since the problem is that many departments, funds and agencies fail to adhere to the guidelines, not that the guidelines are deficient. For this reason, in his 1980-81 Annual Report the Auditor General questioned whether or not the Government was committed to providing adequate control systems to record, account for and safeguard fixed assets. If there is a commitment, steps should be taken to ensure that all departments, funds and applicable Provincial agencies adhere to the requirements of the Manual of Financial Administration. If there is no commitment, the applicable section of the Manual should be withdrawn, since allowing it to be disregarded brings the whole Manual into disrepute.

Pending a formal response to the above matters, no specific examples of deficiencies in fixed asset control systems are included in this report and the related recommendations are repeated.

Recommendation: (No. 10) *(1978-79: No. 13)*

It is recommended that, in view of the large and increasing volume (and value) of fixed assets administered by the Provincial Government, improvements be made to many of the systems currently in place to ensure adequate control and safeguards. These systems should incorporate

the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration, the most important of which are:

- *An accurate and timely record of assets under the entity's custodianship containing a description of each asset showing its location, original cost or assigned value, acquisition date and disposal date.*
- *A program of physical verifications to be taken periodically and reconciled to the records. The reconciliations and physical counts should be performed by persons not involved in maintaining the fixed asset records or the custody of assets.*
- *Proper physical safeguards to prevent damage or misappropriations of fixed assets.*

Recommendation: (No. 11) *(1978-79: No. 15)*

It is recommended that all Provincial agencies and regulated funds which are not currently subject to the Treasury Department's Manual of Financial Administration, excepting those which have already done so, design, implement and document procedures to adequately record, account for and safeguard fixed assets under their custodianship. The principles contained in section 9.5 of the Treasury Department's Manual could be used as a guide in designing such procedures.

2.3.8 GOVERNMENT HOUSE FOUNDATION

As a result of a deficiency in the system used to safeguard certain art works displayed in Government House, The Government House Foundation sold a painting which it did not own.

The Government House Foundation was established by the Government House Act and is administered by the Minister of Culture. Among the Foundation's activities is the acquisition of art works for use or display in Government House. However, not all the art works on display in Government House belong to the Foundation.

During the 1981-82 fiscal year, the Foundation purchased a painting entitled "Still Morning". As part of this purchase transaction, the Foundation disposed of another painting entitled "Omen" for $6,500. The annual audit for the year ended March 31, 1982 revealed that "Omen" had not been owned by the Foundation but was an asset of the General Revenue Fund and the responsibility of the Department of Government Services.

If the record of art works owned by the Foundation had been consulted before the painting was sold, this error could have been avoided. Furthermore, the painting's absence should have been discovered when later the Foundation and the Department of Government Services performed their year-end physical inventory verifications at March 31, 1982. The fact that the error remained undetected for so long indicates a deficiency in the control system.

Recommendation: (No. 12)

It is recommended that The Government House Foundation establish procedures requiring the ownership of art works to be checked before they are sold or otherwise disposed of. In addition, year-end and periodic inventory verifications should include timely reconciliations of art works with the record of art works owned.

2.3.9 HEALTH CARE INSURANCE FUND – UNAUTHORIZED TRANSACTIONS

During the year ended March 31, 1982, the Health Care Insurance Fund paid and received several million dollars of public money without statutory authority.

The Health Care Insurance Fund operates under the authority of the Alberta Health Care Insurance Act and provides health care insurance coverage to Albertans. At the conclusion of the 1981-82 annual audit, the Auditor General included three reservations in his report on the Fund's financial statements, all relating to the receipt or payment of public money without statutory authority. The reasons for the Auditor General's reservations were:

1. Payments under Reciprocal Agreements

During the year ended March 31, 1982, the Fund paid $5,246,760 to Alberta hospitals to cover medical costs of patients insured under hospitalization plans of other Canadian provinces and territories. These payments and subsequent reimbursements were pursuant to reciprocal agreements which became effective on October 1, 1981 and which allow payments from the Fund to be recovered from the other provinces and territories. Section 31 of the Alberta Health Care Insurance Act, however, is specific in stating what shall be paid into and from the Fund. It states:

"31(1) There shall be established a fund to be known as the "Health Care Insurance Fund".

(2) The Minister shall hold and administer the Fund and shall keep a separate accounting record of the Fund.

(3) The following shall be paid into the Fund:

(a) all money received from the Government of Canada under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 (Canada) as contributions to Alberta with respect to the medical care programs under the federal Act;

(b) all money received as premiums pursuant to the Health Insurance Premiums Act.

(4) The following may be paid out of the Fund:

(a) benefits;

(b) payments by the Minister to the Alberta Hospital Association pursuant to the Blue Cross agreement;

(c) the costs of insured services (as defined in Part 3 of the Hospitals Act) provided by a hospital outside Alberta.

(5) The income from the Fund shall accrue to and form part of the Fund."

Accordingly, in the opinion of the Auditor General, payments from and reimbursements to the Fund under the reciprocal agreements contravene section 31 of the Act and are, therefore, without statutory authority.

2. Sessional Payments to Physicians Providing Services to the Department of Social Services and Community Health

During the year ended March 31, 1982, the Fund paid $3,013,818 in the form of sessional payments to physicians who provided services to the Department of Social Services and Community Health. These payments and subsequent reimbursements by the latter Department were pursuant to an understanding between the Departments of Hospitals and Medical Care and Social Services and Community Health. It is acknowledged that portions of these payments were for medical services properly claimable against the Fund. Other portions of the payments, however, do not constitute "benefits" as defined by the Act and there is no legislative authority for the subsequent reimbursement of these payments to the Fund.

3. Payments on Behalf of Injured Workers Coming Under the Workers' Compensation Act

The Workers' Compensation Amendment Act, 1981 and its consequential amendment to the Alberta Health Care Insurance Act transferred from the Workers' Compensation Board to the Health Care Insurance Fund, with effect from January 1, 1982, responsibility for paying benefits for basic health services for injured workers coming under the Workers' Compensation Act. As a result of this transfer, the Fund's expenditures increased by $2,304,324 during the three months ended March 31, 1982. This expenditure included approximately $166,000 paid on behalf of injured workers who were not registered with the Alberta Health Care Insurance Plan at the time the treatment was provided. In addition, certain benefit limits were not adhered to and undetermined amounts were paid in excess of the authorized

fee schedule. These payments contravened the Act and its regulations and were, therefore, without statutory authority.

There was a certain amount of confusion regarding the transfer of responsibility from the Workers' Compensation Board to the Fund. For a time it was intended that the Board would reimburse the Fund for all expenditures on behalf of workers coming under the Workers' Compensation Act. Later, it was agreed that the legislation did not provide for such reimbursement and, therefore, payments were reported as expenditures by the Fund. Meanwhile, payments were made consistent with the assessment procedures and fee schedules in use by the Board prior to January 1, 1982, and resulted in payments in excess of authorized limits and on behalf of workers who were not registered.

The Fund's annual audit also revealed another instance of non-compliance with legislation. In addition to assuming responsibility for basic health services for workers coming under the Workers' Compensation Act, the Fund also made payments to Alberta hospitals on behalf of such workers. The Alberta Health Care Insurance Act, however, does not allow payments from the Fund for medical charges by Alberta hospitals. Although these payments were in respect of charges for the three months ended March 31, 1982, the cheques were not issued until after that date. Accordingly, these payments were not the subject of a reservation in the Auditor General's report on the financial statements.

Recommendation: (No. 13)

It is recommended that consideration be given to amending the Alberta Health Care Insurance Act to authorize the Health Care Insurance Fund to make recoverable payments to Alberta hospitals pursuant to reciprocal agreements with other Canadian provinces and territories.

Recommendation: (No. 14)

It is recommended that consideration be given to amending the Alberta Health Care Insurance Act to authorize the Health Care Insurance Fund to make recoverable payments to physicians providing services to the Department of Social Services and Community Health.

Recommendation: (No. 15)

It is recommended that the policy be clarified regarding funding sources for payments for basic health services and hospital charges on behalf of injured workers coming under the Workers' Compensation Act. Legislation should then be amended to provide appropriate authority.

2.3.10 LAND PURCHASE FUND – ULTRA VIRES TRANSACTIONS

During the 1981-82 fiscal year, the Land Purchase Fund borrowed money and pledged land without statutory authority.

The Land Purchase Fund was established by the Government Land Purchases Act and is administered by the Provincial Treasurer. Its purpose is to acquire land on behalf of the Crown to meet future requirements of departments or other divisions of the Alberta public service.

The Act allows the Fund to appoint agents to purchase land on behalf of the Crown. It also empowers the Fund to borrow money from time to time from the General Revenue Fund of the Province. The Act does not specifically empower the Fund to borrow from elsewhere, or to pledge its assets to secure such borrowing.

During the audit for the year ended March 31, 1982, it was observed that acting through an agent, the Fund purchased a parcel of land for a consideration consisting partly of cash and partly of a loan from the vendor secured by a mortgage on the land.

The Audit Office acknowledges that financing the purchase by way of a mortgage was a practical response to a precondition imposed by the vendor that any sale of the land must accommodate the vendor's income tax position. Nevertheless, in the opinion of the Auditor General, as confirmed by a legal opinion obtained, both the borrowing by way of loan from the vendor amounting to $280,000 and the mortgaging of the land as security for the loan were ultra vires the provisions of the Government Land Purchases Act.

During the previous fiscal year a similar transaction occurred. A parcel of land was purchased by an agent on behalf of the Land Purchase Fund for a consideration consisting partly of cash and partly of a loan from the vendor secured by a mortgage on the land. Subsequently, the land became the property of the Fund as a result of an amendment to the Government Land Purchases Act in December 1981. Prior to this amendment, land purchased by an agent did not become an asset of the Fund until title was formally transferred to the Crown. The Act now provides, however, that land becomes an asset of the Fund when acquired by its agent. The parcel of land was sold in March 1982 and the mortgage was transferred to the purchaser. Accordingly, from December 1981 when the land became an asset of the Fund until March 1982 when the land was sold, both the mortgaging of the land and the borrowing under the mortgage amounting to $370,000 were, in the opinion of the Auditor General, ultra vires the provisions of the Government Land Purchases Act.

Details of the above transactions are disclosed in the financial statements of the Land Purchase Fund for the year ended March 31, 1982.

Recommendation: (No. 16)

It is recommended that the transactions entered into by the Land Purchase Fund during the 1981-82 fiscal year which were ultra vires the Government Land Purchases Act, namely:

— borrowing other than by way of advances from the General Revenue Fund, and

— pledging land held by the Fund as security therefor,

be regularized as follows:

(a) the loan be repaid in full, or,

(b) if the mortgagee is unwilling to retire the loan:

(i) a Special Warrant be obtained to provide funds from which the Land Purchase Fund may be reimbursed for costs pertaining to the mortgaged land;

(ii) the Land Purchase Fund be reimbursed for the costs pertaining to the mortgaged land, thereby transferring the land and mortgage to the General Revenue Fund pursuant to section 7(1) of the Government Land Purchases Act;

(iii) if it is necessary, an Order in Council be obtained under section 7(3) of the Government Land Purchases Act;

(iv) an Order in Council be obtained pursuant to section 61(1) of the Financial Administration Act authorizing the borrowing under the mortgage.

If it is likely that in future, the Provincial Treasurer will wish the Land Purchase Fund to acquire land with mortgages attached, consideration should be given to amending the Government Land Purchases Act.

2.3.11 PAYMENTS UNDER THE LEGISLATIVE ASSEMBLY ACT

Section 12 of the Legislative Assembly Act describes the circumstances in which payments for travelling, subsistence and other expenses may be made on behalf of Members of the Legislative Assembly. In general, Members are entitled to charge reasonable expenses in connection with attending meetings of specified committees, commissions and associations, and while serving as members of specified boards, commissions and other bodies.

The 1980-81 annual audit of the Legislative Assembly Office revealed that payments were made on behalf of Members for expenses incurred in travelling between their constituencies and the Legislature in Edmonton. In addition, certain costs, such as mailing materials to constituents, were paid by the Province in the form of a "communications" allowance. Whereas section 12 of the Act does not debar a Member by virtue of having these expenses paid on his or her behalf, it does not provide specifically for the payment of these expenses.

In a management letter at the conclusion of the audit, the Auditor General brought these matters to the attention of the Clerk to the Legislative Assembly and recommended that con-

sideration be given to amending the Legislative Assembly Act to specifically authorize reimbursements and payments of this nature. Later, in a response to the Auditor General, the Clerk stated that the Auditor General's recommendations had been passed to the Government House Leader for appropriate action and that legislative proposals to eliminate the difficulties noted had been drafted.

The 1981-82 annual audit revealed that the Legislative Assembly Office had continued to pay the aforementioned expenses. Furthermore, at the completion of this report, the Legislative Assembly Act had not been amended.

Recommendation: (No. 17)

It is recommended that consideration be given to amending the Legislative Assembly Act to provide specific authority for the payment of Members' expenses incurred in travelling between their constituencies and the Legislature, approved for the payment of communications allowances and any other similar approved expenditures which may be of benefit to individual Members.

2.3.12 PROTECTING PUBLIC FUNDS AGAINST THEFT

The economic recession has created a situation wherein management of departments and Provincial agencies may need to strengthen their security arrangements to safeguard public monies. The increased number of robberies in the past year suggests that this is a matter of priority.

Money and other negotiable instruments will always be prime targets for thieves. While recognizing that robberies cannot be prevented, management of most private and public sector entities normally adopt security arrangements to reduce the risk of theft. The extent of these security arrangements naturally depends on the circumstances involved.

Monetary assets are normally safe from theft when locked in vaults or safes, or when lodged with banks. They are more vulnerable, however, when being used or processed during normal working hours, or when being transported to banks or other safekeeping facilities. Media reports in Alberta in recent months indicate a substantial increase in the number of robberies from businesses, both during normal working hours and while transporting monetary assets to banking institutions.

The Treasury Department's Manual of Financial Administration contains guidelines for safeguarding public funds (though the Manual does not apply to all Provincial agencies). Chapter 8 of the Manual deals with the receipt, recording, custody and deposit of cash receipts and other negotiable instruments. For example, it provides definitive guidelines and standards covering segregation of staff duties, records to be maintained and frequency of depositing funds. It provides only limited guidance, however, on security arrangements for safeguarding these assets during normal working hours and during transportation to the Treasury Department or banks.

It must be concluded therefore, that management of all Government entities (whether or not they are subject to the Manual of Financial Administration), are responsible for defining their own security requirements for safeguarding monetary assets against theft, and for ensuring that those requirements are satisfied.

Security is very similar to insurance. You can have as much or as little as you are prepared to buy. In normal circumstances, prudent administrators buy insurance to cover potential major losses but do not insure (i.e. they self-insure) against minor risks. Similar criteria should apply when determining security requirements. The costs of security arrangements should not be disproportionate to the value of the assets safeguarded.

When defining security requirements, management should consider the volume of funds involved and their location during normal working hours. Similarly it should consider the volume,

frequency and timing of fund transfers as well as the distances involved. Security techniques available vary from such simple procedures as limiting the funds held in or close to public offices, through to electronic alarm systems, trained guards and armoured cars. Management of departments and agencies must decide which security techniques are most appropriate to their particular circumstances.

It is usually possible to value or determine the cost of the aforementioned considerations and techniques. It is often more difficult, however, to quantify other considerations in monetary terms. For example, individual staff who carry deposits to banks or night depositories are vulnerable to attack, even where the value of the deposits is small. Similarly, they may be vulnerable to suspicion if unwitnessed robberies occur.

Recommendation: (No 18)

It is recommended that management of all departments and Provincial agencies regularly review and, where necessary, strengthen their security arrangements for safeguarding public monies against theft, particularly during normal working hours and when such monies are in transit.

2.3.13 PROVINCIAL INCOME TAX REVENUES

During the past few years, inaccurate estimating by the Government of Canada caused delays in remitting to the Province significant amounts of income tax revenues collected by the Government of Canada on the Province's behalf. Furthermore, accurate estimates of unassessed Provincial income tax revenues are not available.

Income taxes levied on individuals by most Canadian provinces are collected and remitted to the provinces by the Government of Canada. The taxes assessed on behalf of each province, however, can only be determined after the income tax assessments are completed. This may take several years. So that income tax revenues may be received without delay, the Government of Canada pays regular instalments to the provinces. Later, when the income tax assessments are largely completed, final settlement payments are made by or to the Government of Canada. Settlement payments for assessments completed are made in the fifteenth month following the end of the income tax year to which they relate. Inevitably, however, some assessments are made and settled even later (See subsection 3.3.8 of this report).

Income tax instalments paid to the provinces are based on estimates by the Government of Canada. If the estimates are accurate, the final settlement payments will be insignificant.

The Government of Canada uses an econometric model to estimate total income tax revenues. Income tax instalments paid to a province are calculated by applying the percentage obtained from the latest available data on settlement payments to the estimate of the total income tax revenue. In recent years, however, the model consistently underestimated the total income tax revenues from individuals. Furthermore, since the percentages used to calculate instalments paid to the provinces were based on historic data, they were late in reflecting Alberta's recent population growth and the Province's strong economic growth relative to the rest of Canada. This has resulted in increasingly large settlement payments to the Province by the Government of Canada. For example, the settlement payments received in January and March 1981 for taxes on individuals during 1979 and earlier taxation years totalled $107 million. The equivalent payments received in January and March 1982 totalled $179 million, and the January 1983 payment alone was $179 million.

These are significant amounts of revenue that are being received by the Province more than a year after it could receive them if more accurate estimates were used. Furthermore, they represent lost investment opportunities, especially significant during a period when interest rates were high.

As explained more fully in subsection 2.7.1 of this report, a task force was established in 1979 to review various aspects of the audit of provincial income taxes collected by the Government of Canada. The task force was made up of representatives of the provincial legislative auditors and the Auditor General of Canada.

During the course of its work the task force became aware of the existence of a tax gap. The tax gap is the difference between taxes assessed and the taxes which could be assessed if taxpayers complied fully with the law. The size of the gap depends on the extent to which taxpayers voluntarily comply with the federal and provincial income tax Acts and on the effectiveness of compliance and enforcement procedures employed by the Department of National Revenue – Taxation.

These matters were explained in the Auditor General's 1979-80 and 1980-81 Annual Reports. In response to a recommendation in the 1979-80 Annual Report, the Provincial Treasurer indicated in October 1981 that the Government of Alberta will, in conjunction with other provincial governments, assess the best method of evaluating the collection activities of the Department of National Revenue – Taxation. To allow the Provincial Treasurer sufficient time to take the necessary action, the recommendation was not repeated in the 1980-81 Annual Report.

The Province of Alberta's share of the tax gap has not been accurately estimated by either the Province or the Government of Canada. Accordingly, the Auditor General is unable to report on how much Alberta income tax receivable was not assessed, or to comment on the effectiveness of the compliance and enforcement procedures used by the Government of Canada as Alberta's agent when collecting Alberta income taxes.

Recommendation: (No. 19)

It is recommended that the Provincial Treasurer:

- *estimate annually, either independently or in conjunction with the Department of National Revenue – Taxation, the income taxes assessable under the Alberta Income Tax Act.*
- *estimate annually how much income tax it is reasonable to expect will not be assessed assuming that the Department of National Revenue – Taxation employs adequate compliance and enforcement procedures.*
- *require each year, prompt remittances to the Province of the difference between these two estimates, or explanations for any significant variances.*

2.3.14 THE UNIVERSITY OF ALBERTA – SPECIAL FUNDS

The Auditor General's 1980-81 Annual Report commented on deficiencies in the procedures used by The University of Alberta to avoid and follow-up overexpended and overcommitted special fund accounts. An account of particular concern was the University of Alberta Students' Union account which at one time was overdrawn by $580,000.

The audit for the year ended March 31, 1982 revealed that the University has established new control procedures. Although overexpenditures and overcommitments still occur, prompt and vigorous follow-up action clears outstanding amounts more effectively than in past years. As indicated in the Auditor General's 1980-81 Annual Report, the Students' Union account borrowing was later brought within the approved limits. Since 1981, the University's Board of Governors has closely monitored all Students' Union borrowings and has issued an ultimatum that unless the Union retires its external debt by January 1, 1985, at the same time keeping its account with the University within approved limits, it will be placed in receivership.

As the University has taken corrective action, the Auditor General's two 1980-81 recommendations are not repeated in this report.

2.4 SYSTEMS WEAKNESSES AND DEFICIENCIES

(Reported pursuant to subsections 19(2)(d) and (e) of the Auditor General Act.)

2.4.1 DEPARTMENT OF ENERGY AND NATURAL RESOURCES – COLLECTION AND CONTROL OF NATURAL GAS ROYALTIES

The systems used by the Department of Energy and Natural Resources to collect and control natural gas royalty revenues are unsatisfactory and it is urgent that they be improved.

The Department is responsible for collecting the Province's share of royalties on natural gas and natural gas by-products (gas royalties). During 1981-82, these royalties amounted to almost two billion dollars.

The regulations governing the calculation and payment of gas royalties are extremely complex. Gas royalties are paid by Crown lessees, but are not levied until the gas and by-products are processed and sold. Royalties are calculated on the average selling price and volume of processed gas and by-products sold at the processing plants after taking into account the well's ownership, Crown share, production rate, and gas status. There are several factors which make it difficult for the Department to relate well production to volumes of processed gas and by-products sold.

For example, the gas gathering system mixes together the production from many wells. Gas produced from various wells is of differing qualities and the by-product components are not in the same proportion.

All information relating to gas produced and processed originates from the producing Crown lessees and accordingly, the gas royalties system is, in effect, a self-assessment system.

The annual audit of the Department for 1981-82 was concluded in November 1982 and revealed deficiencies in the system used to record and control gas royalty revenues. The more serious deficiencies were as follows:

— Verifying the accuracy of information on monthly gas royalty reports was significantly in arrears.

  When Crown lessees pay gas royalties, they submit monthly reports to the Department showing how the royalties are calculated. The Department uses its computer-based Gas Royalty Audit System (GRAS) to verify the Crown share and production rate information on these monthly reports by comparing it with the Department's data on the wells concerned. These verification procedures had not been completed since July 1981.

  In addition, GRAS is designed to check that monthly reports are received for all producing wells from which the gas is gathered. The system compares the monthly reports received with gathered gas information provided by the Energy Resources Conservation Board and generates a report listing the wells for which reports have not been received. When the 1981-82 annual audit was concluded in November 1982, reports listing wells for which reports were not received had not been produced since February 1982. In addition, reports from July 1981 onwards had not been fully investigated and cleared.

— Royalties payable for 1979, 1980 and 1981 had not been adjusted to reflect actual gas cost allowances (GCA).

  GCA are estimated by Crown lessees and deducted from gross royalties when calculating royalties payable on the monthly reports to the Department. After the end of each year when the allowable costs are determined and certified, they are to be substituted for the previously used estimates and the annual gas royalties payable should be adjusted accordingly. Although actual costs had been substituted for estimates for 1979, 1980 and 1981, the annual royalties payable had not been adjusted. However, the Department instructed the Crown lessees to make these adjustments themselves. The Audit Office is unable to determine the effect of these adjustments on annual gas royalty revenues.

— Deficiencies in the Department's control system allowed excessive and erroneous claims for holidays from payment of royalty to pass undetected.

As a drilling incentive, the Government allows holidays from payment of royalty on exploratory wells for limited time periods. The GRAS and related manual procedures are supposed to monitor claims for royalty holidays and ensure that they comply with the regulations. Out of a sample of 32 wells that did not pay royalty which were checked during the 1981-82 annual audit, one instance was revealed where an erroneous claim passed undetected, and another instance was revealed where a claim was allowed for an excessive time period. One of these claims resulted in gas royalty being underpaid by approximately one million dollars. Following the Audit Office's findings, the Department began a review of all royalty holiday claims from 1978 to 1982. When the annual audit was concluded in November 1982, the Department's initial review (of 1981 and 1982 only) had revealed a significant volume of claims requiring more detailed investigation.

— Gas volume verification procedures are significantly in arrears.

The Department attempts to reconcile volumes of gas and by-products sold, as shown on the monthly reports, with industry reports called plant allocation statements. This control procedure is designed to provide assurance that all gas and by-products produced are reported. When the annual audit was concluded, this procedure had not been completed for 1980, 1981 and 1982, and it had only recently been completed for 1979.

The reasons for the control deficiencies outlined above can be traced back, directly or indirectly, to GRAS. GRAS was originally designed as an interim system with an anticipated useful life of two years, to allow time to develop a more comprehensive gas royalty recording, monitoring and control system. A replacement system has not been developed, however, and GRAS is into its fourth year of operation. Not surprisingly, it is experiencing operational difficulties.

Many of the design features built into GRAS (because it was intended to be a two year interim system) contributed to the Department's problems because the system's life was extended. For example:

— The control master file could hold data for only twenty four months and procedures were not established for testing modifications to the system. When the control master file's capacity was expanded to sixty months, the system partially failed and had to be reconstructed.

— The system's tolerance factor for reconciliation variances was too precise and thus contributed to a large volume of exceptions being reported and delays in clearing them.

— The control master file had to be completely reverified when royalty payers filed numerous amended reports dating back in some cases, to when the system was established in 1979.

— Annual GCA adjustments could not be processed until twelve monthly reports had been verified.

It is acknowledged that the Department's determined efforts to improve its accounting information have met with considerable success during the past two years. It is also acknowledged that the Department is attempting to rectify the aforementioned deficiencies in GRAS pending development of a replacement system beginning in 1983-84. As interim measures, the Department is enhancing the existing computer system and, to the extent practicable, compensating manual controls are being established. There is no doubt that under the existing regulations, it is extremely difficult to design an effective system to calculate, collect and control natural gas royalties.

Recommendation: (No. 20)

It is recommended that the Department of Energy and Natural Resources develop a new system to record, monitor and control royalty revenues from natural gas and natural gas by-products. Meanwhile, the Department should continue to bring up to date the verification of its existing data.

Recommendation: (No. 21)

It is recommended that before the Department of Energy and Natural Resources develop a new system to monitor and control royalty revenues from natural gas and natural gas by-products, consideration be given by the Government to seeking a more efficient and less complex way of calculating, verifying and collecting gas royalties. In this regard, input should continue to be obtained from the gas industry and all Government entities involved in monitoring the production, processing and selling of natural gas and natural gas by-products.

2.4.2 DEPARTMENT OF HOSPITALS AND MEDICAL CARE – GRANT OVERPAYMENTS

During the year ended March 31, 1982, the Department of Hospitals and Medical Care overpaid hospital operating grants resulting in the General Revenue Fund foregoing investment income.

The Department pays operating grants in monthly instalments to two hospitals in Hospital District 93; viz. Holy Cross Hospital and Rocky View Hospital. At the request of the Hospital District, with effect from April 1,1981 the operating grants for both hospitals were paid to Holy Cross Hospital. However, the Department omitted to cancel the grant instalments paid to Rocky View Hospital with the result that these instalments were paid twice. The Department did not discover these duplicate payments until September 1981 by which time $9,483,319 had been overpaid. At the Department's request, the overpayment was reimbursed by the Hospital.

Because of this overpayment, the money involved was not available for investment by the General Revenue Fund and investment income in excess of $150,000 was foregone.

Recommendation: (No. 22)

It is recommended that the Department of Hospitals and Medical Care strengthen its procedures to avoid duplicating operating grants to hospitals.

2.4.3 DEPARTMENT OF THE SOLICITOR GENERAL – NEW CORRECTIONAL CENTRES

The accounting records and financial control systems established at two new correctional centres were inadequate and ineffective.

During the 1981-82 fiscal year, the financial affairs of two new correctional centres were audited for the first time. Both of these centres became operational before March 31, 1981. The audits revealed numerous weaknesses and deficiencies in the accounting records and financial control systems. Among the weaknesses and deficiencies observed at one or both centres were the following:

— A general ledger was not maintained to exercise overall control over assets and financial transactions. Without such a ledger (or similar control record) it was impossible to prepare and submit periodic financial statements to the Department.

— Control over bank accounts, inmate trust accounts and canteen accounts was seriously deficient. The accounting records were in arrears, incomplete or non-existent and no summary accounts or reconciliation procedures were used to ensure accuracy and completeness.

— The same person was responsible for preparing input documents for the payroll system and distributing payroll cheques to staff. This is a control weakness which creates a situation in which the person concerned could fraudulently instigate and obtain payroll cheques with little chance of detection. However, no fraudulent activity was detected by the Audit Office.

— Records and controls for the receipt of cash were generally inadequate. Cash records were not always maintained properly and instances were noted where official receipts were not issued when cash was received. Furthermore, monies received were sometimes not deposited promptly nor remitted monthly to the Department.

— Cash overages and shortages were not handled in accordance with established policies. The practice was for the cashier to cover shortages out of personal funds and to keep overages.

— Staff responsible for opening mail did not record and sign for monies thus received. To help ensure that all monies received are properly recorded and deposited, incoming mail should be opened in the presence of two people who should certify that it is accurately counted and recorded.

— Inadequate records were maintained of fines collected for transmission to various Provincial Courts. The fines account contained inmate welfare funds which should have been in the inmate welfare surplus account. Since the records did not identify certain of the money in the fines account, transfer of fines to Provincial Courts was often late.

— Not all inmate files could be located. Some of these contained essential documentation to support inmate trust account transactions.

— Control over inventories was poor. No consistent method was established for valuing canteen inventories and at some month ends inventories were not valued. This effectively negated the calculation of rates of gross profit and other management control information. In addition, variances between inmate stores inventory records and periodic physical counts were not investigated and explained.

— Several of the departmental expenditure transactions audited were inaccurately coded.

— Incentive pay and forestry pay claims were not always forwarded promptly for reimbursement.

— Petty cash accounts were not kept on an imprest basis and reimbursement cheques were made payable to "cash".

These and other systems deficiencies revealed during audits by the Audit Office and the Department of the Solicitor General's internal auditors indicated poor financial management and control. In every case, the deficiencies resulted in lack of compliance with guidelines and control requirements contained in the Treasury Department's Manual of Financial Administration.

These problems could have been avoided if staff at the new correctional centres had been properly trained and provided with adequate procedural documentation. In addition, the Department's Finance and Administrative Services Division should have supervised and supported the centres' financial administration during the early months of operation. To some extent, however, the Division was hindered by staff turnover and inadequate procedural standards and documentation.

Since these problems were discovered, considerable progress has been made towards eliminating the observed weaknesses and deficiencies. The appointment of Deputy Directors of Administration helped considerably in this regard. Since the Department plans to open two new multi-purpose correctional centres in the near future, administrative and supervisory procedures should be established to avoid a repetition of the problems experienced when the present two were opened.

Recommendation: (No. 23)

It is recommended that the Department of the Solicitor General ensure that adequate accounting records and financial control systems are established when new correctional or other institutions are opened. This should include:

— developing administrative manuals and training staff in their use, and

— providing assistance and supervision during the early months of operation.

2.4.4 DEVELOPMENT OF ELECTRONIC DATA PROCESSING SYSTEMS

In previous Annual Reports, the Auditor General commented on difficulties experienced by some departments and Provincial agencies when developing and implementing new electronic data processing systems.

Computers and computer systems are widely used by the Province of Alberta. In addition, there is increasing pressure to expand their use to addressing newly legislated mandates and to improving the operations of departments and Provincial agencies. The importance of devel-

oping systems which are able to perform the functions for which they were intended cannot be over-stressed. Computerized information systems produce the information used by management in the decision-making process. The information provided by these systems therefore, influences the quality of management's decisions; when systems fail to satisfy their design objectives, the information produced may result in poor and more costly decisions. In addition, poorly defined systems, once developed and implemented, are often difficult and expensive to modify.

Computers enable large quantities of data to be processed economically. Because of this, information processing is becoming increasingly important to management. The computer is not just a calculator, it is an aid to management thinking and decision making. The relevance of management information and information processing systems requires that managers at all levels understand how data can be processed to generate management information.

Departments and Provincial agencies are normally divided into branches or divisions for such activities as planning, finance, operations, personnel and information systems. Each branch or division operates by managing its available resources. Where these resources include people, it is generally accepted that a manager must be able to manage people, even where there is a separate personnel division. Similarly, the presence of a separate data processing division does not diminish the need for managers to manage their data so that they obtain the information relevant to their decisions.

Before the advent of computerized data processing, the information available to managers was limited by the data processing techniques available. Computers now facilitate the production of more timely information which, in turn, allows managers to make more informed decisions. The ability to make informed decisions is a benefit available to managers who understand data and how it can be processed.

Treasury Board Directive 07/81 established the procedures for managing electronic data processing. It states that the Treasury Board recognizes that individual departments and agencies have prime responsibility for the management of EDP resources required to achieve their program objectives. The directive recognizes that inherent in this responsibility is the need to develop and maintain EDP plans for present or proposed EDP systems. To assist individual departments and agencies in the management of their EDP resources, standards and guidelines were issued by the Department of Government Services and the Office of the Controller.

TBD 07/81 indicates that the Office of the Controller will review EDP projects and development practices to ensure compliance with the Directive and the standards and guidelines issued.

During the 1981-82 fiscal year, the Audit Office reviewed the procedures established by TBD 07/81. It was observed that the Office of the Controller reviews EDP projects and development practices to ensure compliance with TBD 07/81 and the related standards and guidelines. Although these reviews are a useful beginning they concentrate almost exclusively on ensuring compliance with financial control standards. They are not designed to assess whether senior management of departments and agencies participate adequately in the development of EDP systems.

Recommendation: (No. 24)

It is recommended that the Office of the Controller, as part of its ongoing review of compliance with Treasury Board Directive 07/81 procedures, review the EDP development plans of departments and Provincial agencies to determine whether:

- *the plans describe in appropriate detail the proposed development and implementation activities;*
- *evidence is available to support the rationale behind the plans;*
- *senior managers in departments and Provincial agencies recognize their responsibilities respecting the plans, and are appropriately involved in both their preparation and execution.*

Appropriate involvement by senior managers means that they should identify, define, and establish priorities for the problems to be addressed by EDP development plans and should

monitor the implementation of plans and the development of systems to ensure that the most efficient, economic and effective solutions are adopted to satisfy their information needs.

2.4.5 EXPENDITURES IN EXCESS OF AUTHORIZED LIMITS

Five Government departments overspent by $6.4 million the funds provided for them by the Legislative Assembly for the 1981-82 fiscal year. The five departments and the amounts by which each overspent its approved funds are listed in section 3.3.11 of this report.

Each year, the Legislative Assembly passes an Appropriation Act which provides funding from the General Revenue Fund for departmental programs. Appropriation Acts normally state that "From and out of the General Revenue Fund, there may be paid and applied a sum not exceeding, in the whole $....." Estimates of Expenditure supporting the Act then list the amounts (supply votes) included in this total which are provided for each program thus funded.

By overspending one of their 1981-82 supply votes without obtaining special warrants to cover the overexpenditures, each of the five departments spent more than was authorized by the Legislative Assembly.

Under the provisions of section 32(4) of the Financial Administration Act, overspent supply votes may be paid and charged against the supply vote for the following fiscal year. Accordingly, the funds available to the five departments under the appropriate 1982-83 supply votes will be reduced by the amounts by which they overspent their 1981-82 supply votes.

The annual published Estimates of Expenditure sub-divide program expenditures into sub-programs and five object of expenditure control groups. In addition to the overall spending limits imposed by Appropriation Acts, Treasury Board Directives issued pursuant to the Financial Administration Act also impose spending limits by sub-program and expenditure group. Despite these directives, many instances were observed where 1981-82 limits were exceeded without Treasury Board approval.

Aside from constituting non-adherence to legislation and Treasury Board directives, the above practices weaken the legislative and financial controls inherent in the budgetary process. Accordingly, departments should have procedures to prevent supply vote, sub-program and object of expenditure control limits being overspent without proper authority. Furthermore, the Office of the Controller should ensure that these procedures are adequate and are complied with.

In management letters to the five departments at the conclusion of 1981-82 audits, the Auditor General drew attention to overspent supply votes and control limits and recommended establishment of systems to prevent recurrences of this nature. In addition, management letters to certain other departments noted that control limits had been exceeded.

The Auditor General's 1980-81 Annual Report noted that ten Government departments overspent their appropriated funds for that fiscal year. Reducing the number of delinquent departments to five in 1981-82, therefore, represents an improvement. It should be noted, however, that the total overspending increased from $3.8 million in 1980-81 to $6.4 million in 1981-82. Furthermore, three of the departments with overspent programs in 1981-82 also overspent programs in 1980-81.

Recommendation: (No. 25) *(1980-81: No. 14)*

It is recommended that, where necessary and appropriate, Government departments establish procedures to ensure that annual expenditures do not exceed authorized limits. Furthermore, the Office of the Controller and the Budget Bureau should institute procedures to ensure that Government departments comply with Treasury Board Directives relating to expenditure controls.

Another instance of expenditure in excess of authorized limits occurred when in August 1981, the Provincial Treasurer's advance to the Government Services Revolving Fund exceeded the $60 million limit imposed by the Department of Government Services Act. In November 1981, the advance's approved limit was increased to $75 million by an amendment to the Act.

Recommendation: (No. 26)

It is recommended that the Treasury Department and departments responsible for administering revolving funds establish procedures to prevent advances from the Provincial Treasurer to the revolving funds from exceeding statutory limits.

2.4.6 NURSING HOME PROGRAM

During the 1979-80 fiscal year, the annual audit of the Department of Hospitals and Medical Care was extended to encompass management information and control systems within the Department's "Financial Assistance for Supervised Personal Care" program. This program is commonly referred to as the Nursing Home Program. Among the audit findings were that:

— deficiencies existed in the Department's systems for controlling the payment of per diem grants to nursing homes.

— deficiencies existed in the Department's procedures for reviewing compliance with legislated standards of patient care.

— instances were noted of non-compliance by nursing homes with regulations issued pursuant to the Nursing Homes Act.

These audit findings were described in detail in the Auditor General's 1979-80 Annual Report. In addition, the Report contained three recommendations designed to correct the observed systems deficiencies.

In a report to the Select Standing Committee on Public Accounts in October 1981, the Provincial Treasurer outlined the procedures to be implemented by the Department in response to the Auditor General's recommendations. Although it appeared that the proposed procedures would eliminate the observed deficiencies, the three recommendations were repeated in the Auditor General's 1980-81 Annual Report pending a review of their implementation and effectiveness.

The review was performed during the annual audit of the Department for the 1981-82 fiscal year. Audit findings respecting the three outstanding recommendations were as follows:

Per Diem Grants

Nursing homes have been provided with guidelines for preparing monthly and annual reports and returns to promote complete, accurate and consistent reporting of information to support the calculation of per diem grants. However, provincial contributions and patient days data were still not being reconciled to the monthly financial and statistical reports from nursing homes. Furthermore, the unaudited monthly data were not being reconciled to the audited annual reports received from nursing homes.

Since the Auditor General considers these reconciliations to be important control procedures, the recommendation is repeated herein, though in modified form.

Recommendation: (No. 27) *(1979-80: No. 17)*

It is recommended that the Department of Hospitals and Medical Care strengthen its control over the payment of per diem grants to nursing homes under the Financial Assistance for Supervised Personal Care program by ensuring that:

— *Provincial contributions and patient days data on monthly returns are reconciled with the data contained in monthly unaudited financial and statistical reports from nursing homes.*

— *Monthly data are reconciled with annually audited data, and that annually audited data are provided in a format which facilitates such reconciliations.*

Compliance with Legislated Standards of Patient Care

The Department has established an inspection unit which visits nursing homes and reports to the Institutional Operation Branch on matters including compliance with legislated standards

of patient care. The inspection unit has not been operating long enough, however, for the Audit Office to determine its effectiveness. Nevertheless, the original recommendation is not repeated.

Compliance with Regulations

The original 1979-80 audit revealed instances of non-compliance with regulations requiring nursing homes to provide minimum hours of nursing and personal care per patient day. In addition, not all District Boards were complying with the regulations which require them to report the results of annual reviews and assessments to the Minister. The Minister of Hospitals and Medical Care appointed a panel of citizens to review all aspects of the Nursing Home Plan. The panel has now completed its review and issued a report with recommendations for changes to current legislation. Pending any such changes and the establishment of procedures to monitor compliance therewith, the recommendation is repeated.

Recommendation: (No. 28) *(1978-79: No. 19)*

It is recommended that the Department of Hospitals and Medical Care improve procedures to monitor and ensure compliance, by the nursing homes to which it contributes funding, with the regulations issued pursuant to the Nursing Homes Act.

2.4.7 PAYROLL SYSTEMS – OVERPAYMENT OF OVERTIME

Section 17.08 of the Master Agreement between the Government of the Province of Alberta and the Alberta Union of Provincial Employees states that "overtime pay shall be calculated from the annual salary rate in effect at the time overtime is worked regardless of any subsequent retroactive change in that rate." This applies to all public employees who are paid for overtime, regardless of union membership or the reason for the change of salary rate.

Following a retroactive pay settlement in 1978, public employees were paid for overtime at the new salary rate, rather than at the rate in effect when the overtime was worked. This contravened section 17.08 of the Master Agreement and resulted in overpayments of overtime. In response to a recommendation for corrective action contained in the Auditor General's 1978-79 Annual Report, the Provincial Treasurer stated that departments were being encouraged to ensure that overtime is paid at applicable rates.

Despite this, however, similar overpayments of overtime occurred following a retroactive pay settlement in 1981. An examination of payroll history files revealed that 6,105 public employees received overpayments totalling $127,488.

Since then, the payroll data processing system has been modified so that overtime can be calculated at the salary rate in effect when the overtime was worked. It will not be possible to determine whether the correct rates are used, however, until the 1982 pay negotiations are settled and overtime payments are processed. Accordingly, the recommendation is repeated. It must be remembered that departments are primarily responsible for ensuring that their employees' salaries are calculated accurately.

Recommendation: (No. 29) *(1978-79: No. 20)*

It is recommended that when employees receive salary increases, the departments in which they are employed must ensure that overtime paid subsequently, for hours worked before the salary increase, is based on pre-increase salary rates.

2.4.8 PUBLIC COLLEGES

The Province's ten public colleges, which are listed in subsection 4.1.3 of this report, operate under the authority of the Colleges Act. Although each college is administered by an independent Board of Governors, the colleges' programs are co-ordinated under policies administered by the Department of Advanced Education.

The Auditor General's 1979-80 and 1980-81 Annual Reports commented on several accounting and financial control deficiencies revealed by the annual audits for the years ended June 30, 1979 and 1980 respectively. At the time of writing this report, annual audits for the year ended June 30, 1982 are substantially complete and, accordingly, the comments contained herein reflect the findings of both the 1981 and 1982 annual audits.

The remainder of this subsection contains a follow-up on the observations and recommendations in the Auditor General's 1979-80 and 1980-81 Annual Reports. Since the matters related to more than one college, this Annual Report continues the practice of, for the most part, not directing observations and recommendations at specific colleges, as it is hoped that the recommendations will benefit all colleges.

Fixed Assets

In his last two Annual Reports, the Auditor General stated that the systems used by the public colleges to account for and safeguard fixed assets were inadequate. He also noted that efforts to develop adequate systems by four of the colleges were hampered by uncertainties regarding the transfer of assets from the Department of Advanced Education and Manpower when the colleges received public college status in April 1978. In view ofthese uncertainties and because the assets involved were so significant, the Auditor General reserved his opinions on the financial statements of Fairview, Keyano, Lakeland and Olds Colleges for the years ended June 30, 1979, 1980 and 1981.

Annual audits for the year ended June 30, 1982 revealed that during that year, the aforementioned colleges received details and values of the assets transferred from the Department of Advanced Education and Manpower. Three of the four colleges disclosed these assets in their financial statements at June 30, 1982. In addition, agreements were signed covering transfers of land and buildings from the Department of Housing and Public Works to the three affected colleges. Two of the three colleges disclosed these assets in their financial statements at June 30, 1982. As a result of all this, Fairview College was the only public college for which the Auditor General reserved his opinion on the financial statements for the year ended June 30, 1982.

Because most of the uncertainties relating to transferring fixed assets to the four colleges have been resolved, the recommendation respecting this matter, which was included in the last two Annual Reports, is not repeated herein.

The 1981-82 annual audits also revealed that progress was achieved by some of the colleges towards establishing acceptable systems to account for and safeguard fixed assets. In this regard, an acceptable system is deemed to be one which combines an up-to-date list of assets held, including asset description, acquisition and location information, with a program of periodic physical verifications by staff who are independent of the asset custody and record-keeping functions.

Measured against these criteria, Grant MacEwan College and Lethbridge Community College now both have acceptable systems. The 1981-82 annual audits of the other eight colleges, however, revealed that many of the systems deficiencies noted in previous years continued to exist. These deficiencies can be categorized broadly under three headings: inadequate or non-existent fixed asset ledgers or listings, asset ledgers or listings not reconciled to the general ledger or financial statements, and lack of periodic physical verifications. Because most of the public colleges have not eliminated the accounting and control deficiencies in their fixed asset systems, the following recommendation is repeated.

Recommendation: (No. 30) *(1979-80: No. 22)*

It is recommended that management of the Public Colleges, excepting those that have already done so, document and implement procedures to account for and safeguard all fixed assets under their custodianship.

Capitalization Policies

In his 1979-80 and 1980-81 Annual Reports, the Auditor General stated that policies governing the capitalization and recording of fixed assets were inconsistent between colleges. Because capital grants paid by the Province to the colleges are based, in part, on reported asset values, this resulted in inequities. These inequities were exacerbated by the aforementioned deficiencies in accounting for fixed assets. However, because the Auditor General no longer reserves his opinion on the financial statements of nine of the public colleges, and because the Department of Advanced Education which administers the capital grants has acknowledged the need for greater consistency, the previously stated recommendation covering this matter is not repeated herein.

Financial Reserves

In his 1979-80 and 1980-81 Annual Reports, the Auditor General commented on the practice of several colleges of establishing reserves for future financial requirements by appropriating funds from operating surplus. The Auditor General was concerned about the effect of this practice on the ability of the Minister of Advanced Education and Manpower to exercise his legislative authority. Accordingly, he recommended that the Minister should determine whether there is a need for colleges to create reserves and, if there is, to clarify how and in what circumstances they may be established.

In addition, in his 1980-81 Annual Report, the Auditor General noted that at some colleges there was a lack of distinction between the intended use of operating grants and capital grants. Annual audits had revealed instances at Keyano, Lethbridge, Olds and Red Deer Colleges where operating and capital funds were combined. This practice raised further concerns about the ability of the Minister to exercise his legislative authority through the operating and capital grant process. Accordingly, the Auditor General recommended that the Minister provide the colleges with guidelines defining the purposes for which operating and capital grants may be used.

Audits for the year ended June 30, 1982 revealed that no guidelines had been provided covering either the establishment and use of financial reserves or the use of operating and capital grants. In some instances, college boards had made major financial decisions without reference to the Minister. It was observed that although there was an overall reduction in the use of financial reserves, Keyano College had established a major new reserve. The use of operating funds for capital purposes had also been reduced, although both Olds and Medicine Hat Colleges continued the practice.

It appears from the above that the Minister of Advanced Education intends that the use of financial reserves, operating grants and capital grants will be left to the discretion of the boards of the individual colleges. Accordingly, the aforementioned recommendations are not repeated in this report. The Audit Office will continue to ensure that financial reserves and reserve changes and combinations of operating and capital funds are duly authorized by college management and appropriately disclosed in financial statements.

2.4.9 REVISED STATUTES OF ALBERTA 1980

Non-adherence to normal purchasing procedures created problems when printing the Revised Statutes of Alberta 1980.

The Revised Statutes of Alberta 1980 were printed and published during the 1981-82 fiscal year. The contents and printing requirements were specified by the Department of the Attorney General while tendering was handled by the Public Affairs Bureau of the Department of Government Services. Although it was anticipated that in accordance with tradition, printing costs would be borne by the Clerk of the Legislative Assembly, the Clerk was not involved in the initial stages of the purchase, nor did he authorize the purchase price in writing. This was contrary to the normal methods of authorizing printing contracts of this nature.

The cost of printing the statutes exceeded $1,300,000 and was paid by the Government Services Revolving Fund. When the Revolving Fund invoiced the Clerk of the Legislative Assembly for

a like amount, the Clerk paid only $566,000 being the amount the Clerk had budgeted for the project.

At a meeting of representatives of the Departments of the Attorney General and Government Services and the Clerk of the Legislative Assembly, it was decided that the balance of the costs would be borne by the two departments on the basis of usage.

Recommendation: (No. 31)

It is recommended that the Government Services Revolving Fund ensure that written authorization is obtained from the ultimate payor before special purpose contracts for goods or services are issued.

2.4.10 SALARY PAYROLL – INADEQUATE DOCUMENTATION

Procedures used by many Government departments to ensure accurate payment of salaries, as well as the records maintained to support those payments, continue to be inadequate.

Staff salaries of all departmental employees are processed through the Province's central salary payroll system. Although the system is administered jointly by the Personnel Administration Office and the Office of the Controller, the departments that use the system are primarily responsible for the following aspects of the system:

— preparing and submitting accurate and authorized payroll documentation for processing by the system;

— ensuring that employees are paid in accordance with the prevailing regulations, agreements and terms of employment;

— ensuring that processed salary information (including cheques) is accurate and complete;

— maintaining personnel files and other records to support salary payments and deductions.

Following departmental audits for the 1979-80 fiscal year, the Auditor General reported a high incidence of deficiencies in the records maintained by Government departments to support salary payments and deductions. These deficiencies, together with errors in salary payments and pension contribution calculations, were attributed to a combination of inadequate procedural and instructional documentation, poorly trained clerical staff, lack of supervision and high staff turnover.

Departmental audits for the 1981-82 fiscal year revealed a considerable improvement. Instructions governing eligibility for pension contribution purposes were revised and the computer program was modified to help determine eligibility requirements. This has reduced dramatically the incidence of incorrect pension contribution deductions. The Personnel and User Manuals were also revised and a committee of senior managers from the Personnel Administration Office and the Office of the Controller was established to deal with matters requiring inter-office co-ordination.

The 1981-82 annual audits also revealed, however, that other previously reported areas of weakness still remain uncorrected. The records maintained by most departments to support salary payments (and deductions and withholdings therefrom) continue to be inadequate. In this regard, the highest deficiency rate was in records maintained to control vacation entitlements, casual sickness and other temporary absences. These records are of added concern since staff may now claim payment in lieu of portions of their vacation entitlement. Inaccuracies therein can, therefore, result in overpayments. In addition, the sample of salary payments selected for audit examination revealed an unacceptably high rate of:

— clerical errors in payroll documents resulting in over/under payments of salaries and/or over/under deductions of withholdings;

— incomplete documentation on employees' personnel files to support payments and withholdings;

— failure to obtain proper approvals for overtime payments and deductions for absences.

The sample of salary transactions audited revealed errors and/or salary record inadequacies in almost all departments. Forty-two per cent of all transactions audited revealed an error and/or a salary record inadequacy.

Recommendation: (No. 32)

It is recommended that all departments and Provincial agencies which use the central salary payroll system review their payroll files to ensure that the information they contain is accurate and up to date. Supervision of clerical staff should also be increased to comply with Chapter 7 of the Treasury Department's Manual of Financial Administration and related employment terms and agreements.

2.4.11 SECURITY OVER CENTRALLY STORED COMPUTER DATA AND PROGRAMS

Many departments and Provincial agencies have not adequately defined their security requirements to safeguard electronically stored data and programs.

The Auditor General's 1979-80 and 1980-81 Annual Reports commented on the need to employ strong security measures, where appropriate, to protect the Province of Alberta's electronically stored data and programs.

Excepting those agencies which have their own data centres, most departments and agencies utilize the services of the central electronic data processing and storage facilities operated by the Department of Government Services. When considering computer security, it is important that all parties involved recognize their respective responsibilities. In this regard, the Department of Government Services is responsible for providing, and has provided, facilities for ensuring an adequate measure of security over centrally stored data and programs.

Management of departments and Provincial agencies which utilize the services of the central facilities have primary responsibility for evaluating the confidentiality and sensitivity of the records they maintain. Management of departments and Provincial agencies are responsible for selecting the most appropriate security systems to protect their data and programs.

Following the recommendations by the Auditor General that security arrangements be reviewed and improved:

— Two manuals containing sections identifying security standards were issued by the Department of Government Services and the Office of the Controller respectively.

— The Office of the Controller has undertaken to review EDP systems on a continuing basis to ensure adherence to security standards.

An Audit Office review of compliance with security standards and a review of the Office of the Controller's procedures relating to these standards revealed the following:

(i) Although the Office of the Controller reviews the design of new EDP systems to ensure that department/agency management is considering security requirements, it does not review the design of existing EDP systems. Further, the Office of the Controller does not review the operation of systems to ensure that prescribed security procedures are complied with.

(ii) The security arrangements of the departments and agencies reviewed by the Audit Office varied from very good to unsatisfactory. For example, the Health Care Insurance Division of the Department of Hospitals and Medical Care has identified security requirements for its data and programs and has ensured that those requirements have been met. Some other departments, however, had not evaluated their data and program security requirements, nor were they aware of their responsibilities in this regard.

It is important to note that despite the involvement of the Office of the Controller, management of departments and agencies are primarily responsible for the security over their data and programs.

Because it has been observed that many departments and agencies have not adequately defined their security requirements, the recommendation is repeated.

Recommendation: (No. 33) *(1979-80: No.31)*

It is recommended that management of departments and agencies, which use the Government's central data processing and storage facility, review the adequacy of their data and program security arrangements. In this regard, user departments and agencies must accept responsibility for assessing the sensitivity and confidentiality of their data and programs, and selecting the most appropriate security system options.

2.4.12 TEACHERS' RETIREMENT FUND – ACCOUNTING CONTROLS

The Auditor General's 1980-81 Annual Report commented on breakdowns in the accounting and financial control functions of the Teachers' Retirement Fund. He also commented on deficiencies in the controls and operating procedures, file conversion methods and documentation revealed by an audit of a proposed new computer-based pension payment processing system.

The annual audit for the year ended August 31, 1981, however, revealed a considerable improvement. In particular, bank accounts and computer-produced pension information are now reconciled promptly and the calculation and payment of pensions are adequately controlled. In addition, receipt of monthly school board contributions and interest earnings are monitored regularly. A new computer system was developed in a controlled and systematic manner. Audit Office concerns were dealt with and the system was implemented successfully in April 1982.

Since the Teachers' Retirement Fund has taken corrective action, the Auditor General's 1980-81 recommendations relating to the aforementioned deficiencies are not repeated in this report.

2.4.13 WALTER C. MACKENZIE HEALTH SCIENCES CENTRE

The Walter C. Mackenzie Health Sciences Centre is a major hospital facility currently being constructed by the University of Alberta Hospitals. It is funded by the Alberta Heritage Savings Trust Fund. In his 1980-81 Annual Report, the Auditor General included observations resulting from a review of the control exercised over the project and the extent of possible budget overruns. In 1982, the Audit Office conducted a follow-up review which indicated that many of its previous observations and recommendations had been addressed. The review also revealed that major efforts have been made to reorganize project administration, renegotiate architectural and construction management contracts and to revise management information systems. The 1982 follow-up resulted in additional Audit Office recommendations designed to further improve controls and to allocate responsibilities more clearly. The Audit Office will continue to review the control exercised over expenditures as the project progresses.

2.5 INAPPROPRIATE ACCOUNTING POLICIES AND INADEQUATE DISCLOSURES

(Reported pursuant to subsection 19(3) of the Auditor General Act.)

2.5.1 ACCOUNTING FOR PROGRAM COSTS

The Province's accounting policies and reporting practices for fixed asset costs and other centrally incurred expenditures distort the reporting of program delivery costs in the public accounts.

The Auditor General's 1978-79, 1979-80 and 1980-81 Annual Reports commented on the inappropriate and inconsistent methods used by the Province to account for costs associated with the occupation of premises and other centrally provided services. Under the present system, some of these costs are charged to the programs, boards and Provincial agencies, which benefit from the expenditures, while others are charged to programs administered by the department which provides the service. Obviously, this accounting practice results in inconsistencies which distort the budgeting and reporting of program costs. Similar distortions occur where fixed asset costs are charged to expenditure in the year in which the assets are purchased, instead of apportioning them to the programs that use them over the lives of the assets. The Auditor General suggested that aside from accounting and reporting considerations, there is a danger that where program costs are reclaimable under federal/provincial cost-sharing agreements, the claiming department or agency may omit to include in claims, costs incurred on their behalf by central agencies.

In past years, most centrally provided service costs were incurred by and charged to programs of the Department of Housing and Public Works and the Department of Government Services, even though programs of other departments and agencies received the benefits from them. The following illustrates the significance of the costs of this nature relating to accommodation budgeted for 1982-83:

	Millions of Dollars
Construction	$386.2
Leases	83.0
Tenant improvements	37.5
Furnishings	5.6
Grants in lieu of taxes	18.6
Operations and maintenance	88.5
Telecommunications	26.7
Manpower	18.0
	$664.1

These budgeted costs represent 7.6% of the Province's total Estimates of Expenditure for 1982-83.

The activities necessary to deliver programs include acquiring and using resources such as staff, supplies, accommodation and fixed assets. Program managers are responsible for the costs of these activities which are charged directly to their programs; they are not held responsible for the costs associated with their programs' activities which are centrally delivered. As a result, Departmental managers are not held directly accountable for accommodation costs and, often, are not even aware of the accommodation costs incurred on their behalf. Accordingly, there is no direct incentive for them to seek the most economical accommodation compatible with achieving their programs' objectives. Under the present system, the Departments of Housing and Public Works and Government Services establish and enforce standards of accommodation, and program managers are usually unaware of and unconcerned with the cost benefits that may be available from occupying alternative accommodation.

The benefits derived from accommodation costs incurred in one fiscal year are often enjoyed over a much longer period. For example, capital construction costs incurred on a building during one fiscal year provide benefits for the occupants for as long as the building is used. If accommodation costs are to be charged equitably to the programs that use the building, a method must be used which charges construction costs to the programs during the life of the building. A suitable method for doing this is already in use by the Province for certain assets. The Government Services Revolving Fund is currently used to absorb capital and operating costs incurred to provide centralized data processing facilities; it then charges these costs to users of data processing services on a usage basis. This, or a similar revolving fund, could be used to distribute accommodation costs to the programs which benefit from the buildings they occupy or use. When buildings constructed or leased by the Province stand vacant, the amortization of the construction, rent and other accommodation costs should be charged to an appropriately named program or sub-program of the administering department. The recent formation of the Department of Public Works, Supply and Services would appear to facilitate a cost allocation system of this nature.

Although apportioning costs to users of centralized data processing facilities is more complex than apportioning accommodation costs to users of buildings, the costs involved are less significant than accommodation costs when viewed on a Province wide basis.

In response to recommendations by the Auditor General in past years that the Province introduce a cost allocation method similar to the one outlined above, the Provincial Treasurer stated that the Government agrees in principle. He also stated, however, that it involves considerably more than a change in accounting policy, since it impacts the fiscal planning and budgetary processes as well. The Treasury Department has more recently prepared a preliminary discussion paper which exposes arguments both for and against user-charging and funding fixed asset costs, and which describes alternative methods of introducing it.

Pending a decision on this matter by the Treasury Department, the Auditor General's previous recommendation is repeated.

Recommendation: (No. 34) *(1978-79: No. 33)*

It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies which derive the benefit from their use. It is suggested that achieving this objective may be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.

Furthermore, since the Provincial Treasurer has indicated that consideration of whether and how to allocate other centrally incurred and reported expenditures will be delayed pending a decision on allocating fixed asset costs, the following recommendation is also repeated.

Recommendation: (No. 35) *(1980-81: No. 34)*

It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.

Adoption of the above two recommendations should not be viewed as a mere accounting exercise. Publication of complete and meaningful program costs would provide Government and senior administration with more useful information than is currently available on which to plan future budgeting and program activities.

It is emphasized that these recommendations are designed to form a basis for a system of centralized control and decentralized accountability. In addition to the financial control exercised through the budgetary process, central controls would also be exercised by the establishing and monitoring of such standards as determining the space requirements and allowances

for individual employees. It would then be for program managers to adequately justify any deviations from these standards.

2.5.2 PENSION PLANS LIABILITY

The financial position of the Province would be presented more meaningfully if its total liability in respect of pension plan obligations was shown as a liability in the Consolidated Statement of Realizable Assets, Liabilities and Net Assets (the Consolidated Balance Sheet).

The Province of Alberta administers six pension plans and guarantees the liability of a seventh plan. At present, the Consolidated Balance Sheet records only a liability equivalent to the funds set aside for future claims on the six plans administered by the Province. In his last three Annual Reports, the Auditor General recommended that the Treasury Department:

— obtain actuarial valuations of the plans triennially using uniform assumptions and valuation methods,

— compute pension plans liabilities internally for years when actuarial valuations are not obtained,

— disclose total pension plans liability, and not merely that portion of the liability for which funds are set aside, in the annual financial statements of the Province.

The Treasury Department subsequently obtained actuarial valuations of the six plans at March 31, 1981. These valuations were based on uniform economic assumptions, though where appropriate, demographic assumptions varied depending on the characteristics of each pension plan. In addition, the Treasury Department indicated its willingness to obtain actuarial valuations triennially and to compute valuations internally for intervening years. However, the Treasury Department is reluctant to adopt the third part of the Auditor General's recommendation until it has reviewed the accounting practices of other Canadian governments.

Pending the review, the total pension plans liability is not disclosed as a liability on the balance sheet of the Province at March 31, 1982. Instead, the results of the actuarial valuations at March 31, 1981 are disclosed in notes to the financial statements.

In February 1981, pursuant to the Pension Fund Act, the Pension Fund was established and in March 1981 an initial amount of $1.1 billion was transferred to it from the General Revenue Fund. After March 31, 1981, monies received or paid under the six pension plan Acts are paid to or from the Pension Fund. The Pension Fund is thus a partial funding for the six pension plans collectively. Accordingly, the Pension Fund's assets totalling $1.330 billion at March 31, 1982 are treated as restricted funds in the consolidated financial statements of the Province.

In the opinion of the Auditor General, the actuarial valuations and accounting disclosures described above represent a significant step towards full accounting recognition of accrued pension obligations.

Part of the accounting recognition already achieved occurred because of the establishment of the Pension Fund. It is important to understand, however, that in recommending full accounting recognition of accrued pension obligations, the Auditor General is not suggesting increasing the assets of the Pension Fund. Unlike private sector pension plans registered pursuant to the Pension Benefits Act, full funding of Provincially administered pension plans is not mandatory. The funding of the Province's pension liabilities, therefore, is a matter of Government policy and thus outside the scope of this report. The Auditor General's recommendation relates, not to funding, but to financial statement presentation practice and full determination of program costs.

As indicated earlier, one effect of the Pension Fund Act is that pension plan receipts and payments are accounted for in the Pension Fund. Before the Pension Fund was established, these receipts and payments were accounted for in the General Revenue Fund as revenue and expenditure.

The Auditor General's Annual Reports for 1978-79, 1979-80 and 1980-81, included estimates of the Province's unrecorded pension plans liability at the end of each fiscal year. These

estimates were to illustrate the materiality of the liability and were based on the incomplete information available at the time. The Auditor General estimated that the unrecorded liability under the six pension plans at March 31, 1981 was $2.254 billion. Since that estimate was made, the actuarial valuation of the plans has been completed. The valuation indicates that the Auditor General's estimate was low and that the unrecorded pension plans liability at March 31, 1981 was $3.013 billion.

Using the March 31, 1981 actuarial valuation as a base, the Audit Office has estimated the Province's pension plans liability at March 31, 1982 as follows:

	March 31, 1982 Estimate	March 31, 1981 Actual	Increase
		(Millions of Dollars)	
Local Authorities Pension Act	$2,029.9	$1,672.5	$357.4
M.L.A. Pension Act	21.1	18.5	2.6
Public Service Management Pension Act	513.9	431.6	82.3
Public Service Pension Act	1,637.4	1,351.8	285.6
Special Forces Pension Act	211.6	167.5	44.1
Universities Academic Pension Act	574.4	472.1	102.3
	4,988.3	4,114.0	874.3
Deduct: Pension Fund assets	1,330.1	1,100.7	229.4
Unrecorded liability	$3,658.2	$3,013.3	$644.9

The above figures show a significant increase in the pension plans liability between March 31, 1981 and March 31, 1982. They also show that the increase in the Pension Fund's assets has not kept pace with the increase in the liability.

In addition to the liabilities under the aforementioned six pension plans, the Province has guaranteed the benefits payable under a partially funded pension plan operating pursuant to the Teachers' Retirement Fund Act. An actuarial valuation of this plan at August 31, 1978 revealed an unrecorded liability of $742 million. The valuation, however, was based on different assumptions and methods than were used when valuing the six other plans at March 31, 1981. Most significantly, the valuation of the six plans assumed a continuation of discretionary cost of living increases on the pensions of past and future retired members. The effects of such increases were not taken into account in the valuation of the Teachers' Retirement Fund.

Applying the actuary's suggested annual increments over the intervening years to March 31, 1982, produces an estimated unrecorded liability at that date for the Teachers' Retirement Fund plan of $1.170 billion, excluding the effect of cost of living increases. Extrapolating this figure to include cost of living increases, using rule-of-thumb methods and adding the liability for the other six plans produces a total pension plans liability at March 31, 1982, after allowing for Pension Fund assets, of approximately $5.3 billion.

If the Auditor General's recommendation was adopted, and the full liability was charged to operations instead of deferring a portion of it, including this amount as a liability in the consolidated financial statements of the Province would reduce the consolidated surplus at March 31, 1982 from $12.0 billion to $6.7 billion.

Even if the substantial effect of the discretionary cost of living increases were removed from these estimates, a reasonable alternative in the circumstances, the unrecorded pension plans liability would still be approximately $3.2 billion, reducing the consolidated surplus at March 31, 1982 to $8.8 billion.

Unless significant additional funds are transferred to the Pension Fund, or without increasing pension contributions or reducing pension benefits, the large unrecorded pension plans liability will continue to grow. In the opinion of the Auditor General, the present practice of disclosing

recent actuarial information in a note to the financial statements is a less desirable alternative to recording the total liability in respect of pension plan obligations as a liability on the balance sheets of the General Revenue Fund and the Province.

Recommendation: (No. 36) *(1978-79: No. 34)*

It is recommended that:

a) The Treasury Department negotiate with the Board of Administrators of the Teachers' Retirement Fund to obtain triennial actuarial valuations based on the economic assumptions and methods used when valuing the six pension plans administered by the Province of Alberta and, at March 31 each year, prepare annual interim valuations of the Fund.

b) Consideration be given to reflecting the unrecorded liability arising under the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. The consequent charge to operations could, if desired, be deferred and amortized over a number of years.

c) Consideration be given to the several options available, any of which if implemented could control the future growth of the pension plans liability.

2.5.3 PROGRAM CHARGES OFFSET AGAINST REVENUE

The control exercised by the Legislative Assembly over certain program expenditures is weakened by budgeting and reporting these expenditures as deductions from revenues.

Governments in Canada normally adhere to the practice of budgeting and reporting revenues and expenditures separately. This enables total annual revenues and expenditures to be readily ascertained and, where a program budgeting and reporting system is used, has the added advantage of providing the legislative body and the public with details of amounts spent on each legislatively approved program. An important feature of this practice is that revenues are collected pursuant to statutes (or regulations thereunder), whereas expenditures (except for statutory expenditures) are disbursed pursuant to annual Appropriation Acts which must be budgeted and debated annually by the Legislative Assembly prior to proclamation.

As can be seen from the above, the Legislative Assembly exercises more rigorous and frequent control over budgeted expenditures than it does over revenues. Accordingly, if program expenditures are budgeted and reported as deductions from revenues, they escape the annual debate and approval of the Legislative Assembly and the control over them is weaker than the control over budgeted program expenditures.

In most cases, the Province of Alberta adheres to the principle that revenues and expenditures should be budgeted and reported separately. In the following two cases, however, it does not:

1. The Exploratory Drilling Incentive credit and the Geophysical Incentive credit programs are designed to encourage the drilling of exploratory oil and natural gas wells and exploration surveys respectively. They are programs of the Alberta Legislature and, accordingly, if the above mentioned accounting principle is applied, costs incurred under these programs should be reflected as program expenditures in budget estimates and in the financial statements of the General Revenue Fund and the Province.

   Most credit entitlements under these two programs are not paid by the Province. Instead, drilling companies deduct credits due to them under these programs from royalties payable to the Province under the Mines and Minerals Act. To report these transactions correctly in budget estimates and the financial statements, total revenue should be "grossed up" by the total of credits deducted, and the credits should be reflected as program expenditures. This is not done, however, and in budget estimates and the financial statements of both the General Revenue Fund and the Province, most costs incurred under these programs are reflected as deductions from non-renewable resource revenue.

   Some credit entitlements under these programs are paid as expenditures by the Province. Accordingly, in addition to departing from normal legislative practice, it is also anomalous

that entitlements paid should be budgeted and reported as program expenditures, whereas entitlements under the same program incurred by allowing recipients to deduct them from royalties receivable, should not.

The impact on the reported figures for the 1981-82 fiscal year, caused by the above, is that both total revenues and total expenditures are understated by $146 million (1980-81: $148 million).

2. The Alberta Income Tax Act and the Alberta Corporate Income Tax Act allow Alberta taxpayers to deduct certain allowances from their taxable income and or their income tax payable. The allowances that reduce only income taxes payable without reducing taxable income are, in effect, Provincial programs approved by the Alberta Legislature. For corporate income taxpayers these programs are royalty credits, small business deductions, rental investment credits and political contribution deductions or credits. For individual income taxpayers, these programs are renter assistance credits, royalty credits, royalty rebates and political contribution deductions.

   Accordingly, the cost of these programs and the administration fees paid to the Government of Canada should be reflected as program expenditures in the budget estimates and the financial statements of the General Revenue Fund and the consolidated financial statements of the Province.

   The impact on the reported figures for the 1981-82 fiscal year, caused by the above, is that both total revenues and total expenditures are understated by $316 million (1980-81: $248 million).

As can be seen from the above, total revenues and total expenditures in the 1980-81 and 1981-82 financial statements were understated by $462 million and $396 million respectively resulting from the anomalous budgeting and accounting policies adopted for these programs.

Since no formal responses were received to the recommendations related to the above contained in the Auditor General's Annual Report for 1980-81, the recommendations are repeated herein.

Recommendation: (No. 37) *(1979-80: No. 35)*

It is recommended that, in the interest of improved financial reporting and accountability to the Legislative Assembly, all costs of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs. It may also involve an amendment to Legislation.

Recommendation: (No. 38) *(1979-80: No. 36)*

It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial income tax revenue from both corporations and/or individuals is presented net of royalty credits, royalty rebates, small business deductions, renter assistance credits, political contribution deductions or credits allowed to taxpayers and administration fees paid to the Government of Canada.

2.6 UNCORRECTED SYSTEMS WEAKNESSES AND DEFICIENCIES ORIGINALLY DETECTED IN PREVIOUS YEARS

2.6.1 ALBERTA RESEARCH COUNCIL

Deficiencies continue to exist in the financial systems and accounting records of the Alberta Research Council.

The Alberta Research Council is a Provincial corporation which provides research and technical services to private business and to government. Its annual revenues and expenditures each approximate to $30 million and it administers assets valued in excess of $24 million.

Previous audits of the financial statements revealed deficiencies in the Council's financial control systems and accounting records. The deficiencies were reported to the Legislative Assembly in the Auditor General's 1979-80 and 1980-81 Annual Reports.

During the annual audit of the Council for the year ended March 31, 1982, it was observed that many of the previously reported deficiencies still existed. In most cases, however, the Council was planning remedial action. The previously reported deficiencies and the action taken or proposed to eliminate them are as follows:

Fixed Assets

The system used by the Council to record, account for and safeguard its fixed assets continues to be inadequate. On the advice of the Audit Office, fixed assets were again verified during 1981-82 in an effort to determine the existence and ownership of assets under the Council's custodianship. The physical verification instructions were unclear, however, resulting in assets being verified and recorded inconsistently. For these reasons, the Council's fixed assets could not be accurately verified and valued before the annual audit was completed in November 1982.

Because the Auditor General was unable to satisfy himself that fixed assets were fairly stated in the Council's financial statements for the year ended March 31, 1982, he qualified his report thereon and unless reliable fixed asset figures are produced, the Auditor General will be unable to issue unqualified reports on the Council's financial statements in futura.

Project Accounting System

The Council undertakes research projects which are sponsored by private business and Government entities. These projects are governed by the terms and conditions of contracts between the Council and the sponsoring entity.

During 1981-82, the accounting system used to monitor the financial progress of individual contracts continued to be inadequate. Manpower and overhead costs were often reflected improperly in project accounts resulting in poor project control and inaccurate billings to sponsors.

Management again assured the Auditor General that a new project accounting system will be in place early in the 1983-84 fiscal year.

Project Contracts

Audits for earlier fiscal years revealed that control over projects was hampered by inadequately drafted contract documents. Often, contracts were silent on such important matters as types of time chargeable to the sponsor, disposition of assets acquired for the project, allocation of overhead costs and treatment of supplementary and escalated costs. These omissions also contributed to problems when billing project costs to sponsors.

During 1981-82, the Council established policies governing the form and content of sponsors' contracts. Although insufficient time has elapsed for the Audit Office to evaluate the effectiveness of these policies, if adhered to they should provide for better financial control over research

projects. To evidence this control, however, project files must contain documentation to support the projects' financial transactions, including billings to sponsors. As in previous years, many contract files maintained during 1981-82 did not contain adequate supporting documentation.

Accounts Receivable

Audits for earlier fiscal years revealed the following deficiencies in procedures used to invoice and follow-up accounts receivable:

- Similar services were invoiced at varying rates. This was because a number of locations were involved in preparing invoices using different rates and bases.
- Some invoices contained calculation errors, which were not discovered because invoices were not independently checked for accuracy.
- Control was not exercised to prevent misuse of blank invoices and to ensure that all invoices used were entered in the accounts receivable records.
- There were considerable delays in invoicing some sponsors.
- Formal procedures did not exist for the prompt and ongoing follow-up of overdue accounts receivable.

While the 1981-82 audit revealed some improvement in these areas, deficiencies still exist in the control over invoicing procedures. Management again assured the Auditor General that the new project accounting system planned for implementation in early 1983-84 will eliminate the deficiencies in the accounts receivable systems.

Expenditures and Stores Inventories

In response to a recommendation by the Auditor General following the 1980-81 annual audit, the Council reviewed the appointment of expenditure officers and established new authorization limits. This was an important first step towards improving financial control over expenditures. Adequate control will not be achieved, however, until systems are established and adhered to covering ordering, receiving, custody, use and payment for all goods and services. For example, the following previously reported control deficiencies persisted during 1981-82:

- Invoices were sometimes approved for payment by expenditure officers even though the monetary amounts involved were above the limits the expenditure officers were authorized to approve.
- Not all purchase orders and documents evidencing receipt of goods could be located.
- Staff duties were not segregated to promote sound internal control. For example, it was possible for one person to order, receive and approve payment for goods. This creates potential for employee fraud with little chance of detection.
- Procedures were not in effect to ensure that credit was received for goods returned to suppliers.
- Control over custody and issue of goods from inventory was poor or nonexistent.

Management has stated that these problems will be addressed by the new project accounting system planned for implementation in early 1983-84. In addition, a newly recruited staff member has begun a review of the materials management area preparatory to developing a new administration system.

Payroll

Weaknesses in the payroll processing and distribution system reported in previous years persisted throughout the 1981-82 fiscal year. Staff whose duties involved the preparation and summarization of payroll data were also responsible for matching cheques to the payroll registers and distributing cheques. This situation creates potential for individual staff members to fraudulently instigate and subsequently obtain cheques with little likelihood of detection, though no fraud was discovered during the audits.

In addition, control exercised over payroll related data submitted for computer processing was weak, in that batch controls or similar procedures were not used to ensure the completeness of data processed and the accuracy of output reports and cheques produced. The Council has assured the Auditor General that it has begun to reorganize its payroll system to correct these deficiencies.

General

The Auditor General again acknowledges the Council's ongoing efforts to correct the control deficiencies revealed by past audits. He also recognizes that these efforts were hampered until recently by an inability to acquire and retain suitably qualified accounting staff. Nevertheless, the Auditor General is concerned over the length of time that these systems deficiencies have remained uncorrected.

Recommendation: (No. 39) *(1979-80: No. 45)*

It is recommended that the Alberta Research Council take vigorous action to eliminate the serious financial control problems in its fixed assets, sponsors' projects, sponsors' contracts, accounts receivable, expenditure and payroll accounting systems.

2.6.2 DEPARTMENT OF TRANSPORTATION

Certain financial controls and accounting systems in the Department of Transportation continue to be inadequate.

The Department is responsible for developing, constructing and maintaining an integrated transportation system in Alberta. During 1981-82, it spent $787 million, mostly through its decentralized field offices and branches.

The annual audit for 1980-81 revealed numerous deficiencies in the Department's financial controls and accounting systems, some of which had persisted for several years. The Auditor General reported these deficiencies to the Deputy Minister of Transportation in a management letter dated March 4, 1982 and concluded that the Department's financial affairs were not being administered in accordance with the Treasury Department's Manual of Financial Administration.

Due to delays in completing the 1980-81 annual audit, the aforementioned management letter was issued later than it would otherwise have been. Accordingly, the audit findings were not included in the Auditor General's 1980-81 Annual Report. The Department recognized many of its system deficiencies and in June 1981, employed a firm of management consultants to review its financial function and organization. The consultants' report was issued in October 1981 and the Department adopted recommendations designed to strengthen its financial management organization and to broaden the scope of its financial function. In particular, this involved providing guidance, direction and training on financial matters to the Department's operating divisions.

The annual audit for 1981-82 revealed that progress has been made towards implementing these recommendations. Recruitment of staff at the director level was complete, and was nearing completion at the manager level. Once the necessary staff are in place, attention can be turned to reviewing and strengthening the financial controls and accounting systems.

Among the financial control and accounting system deficiencies revealed by the 1981-82, and in most cases the previous years', audits were:

Revenue and Accounts Receivable

— The senior staff member in the Revenue Accounting Section (which collects external annual revenues of approximately $36 million) supervises, directs or performs cash receiving and

recording, invoice and credit note preparation, accounts receivable collection, accounts receivable ledger maintenance and control account and revenue report reconciliations. This is incompatible with sound internal control. It exposes the Department to the risk of fraud, though no fraud was discovered during the audit, and contravenes the control guidelines in Chapter 8 of the Treasury Department's Manual of Financial Administration.

— Year end schedules of accounts receivable submitted to the Treasury Department were not prepared in the prescribed form, were inaccurate and were not reconciled to the Department's accounts receivable records.

— The Department is unable to determine whether all revenue arising in its field offices and branches is identified, billed and collected.Poor communication between the central Revenue Accounting Section and the Department's field offices and branches often resulted in late revenue billing and consequent collection difficulties.

— Credit notes and credit adjustments were often prepared by the Revenue Accounting Section based on verbal or other unofficial instructions. These credit notes were not examined for accuracy by the request originator, nor were they approved by a senior Departmental official.

— Accounts receivable collection procedures need strengthening. Many accounts remain uncollected for long periods of time.

Expenditure and Accounts Payable

— Records maintained by field offices to monitor and control spending on major repair and construction projects are not reconciled to the Department's main payments system.

— Deficiencies in the Department's system for approving invoices for payment caused overpayments and duplicate payments. The sample of payments selected for auditing revealed several overpayments. Three of these exceeded $35,000 each, though all were subsequently recovered.

— Unrecorded accounts payable at March 31, 1982 amounted to $673,586, while other accounts payable were duplicated. Similar errors were discovered by the Audit Office at previous year-ends.

— As reported in the Auditor General's 1980-81 Annual Report, the Department overspent the funds provided by the Legislative Assembly for one of its 1980-81 programs by $1,987,405. One of its 1981-82 programs was also overspent by $48,308.

Fixed Assets

— Except for fixed assets held by the Department's revolving fund, which are subject to separate accounting and control systems, the control exercised over the Department's fixed assets after they are acquired is ineffective. The records and systems used to account for, safeguard and monitor the use of these assets are inadequate.

Payroll

— In many instances, the division of duties between staff who prepare and authorize payroll documentation and staff who, subsequent to processing, check and distribute payroll cheques is inadequate. This is incompatible with sound internal control. It exposes the Department to the risk of fraud, though no fraud was discovered during the audit, and contravenes the control guidelines in Chapter 7 of the Treasury Department's Manual of Financial Administration.

— There was a high incidence of deficiencies in the peripheral records maintained by the Department to support payroll payments, which contributed to some of the errors in payments to employees.

Other Matters

— The Department's size and decentralized structure warrant the establishment of an internal audit unit.

— The Department's record of holdbacks payable on construction contracts needs reviewing to determine the reasons for long standing accounts.

— When land purchase holdbacks were paid to vendors, the payments were often charged to program costs rather than to holdback payable account. This resulted in a double charge to the program and an overstated holdback payable of $45,650.

— Expense advances were not always recovered from employees before they left the Department's employ.

— The Department does not always administer contracts in accordance with the contract terms and the Department's established contract administration procedures. For example, one instance was observed where $336,000 was paid before the related work was performed.

The extent and nature of the errors and deficiencies outlined above are a product of unsatisfactory accounting systems and inadequate supervision. These are recognized by the Department which is planning corrective action.

Recommendation: (No. 40)

It is recommended that the Department of Transportation proceed without delay to eliminate the numerous deficiencies in its financial controls and accounting systems.

2.6.3 HEALTH CARE INSURANCE FUND – RECONCILIATIONS

Reconciliation procedures used by the Health Care Insurance Fund to control premiums received and bank accounts, continue to be in arrears.

In Annual Reports for the last three fiscal years, the Auditor General reported that reconciliations of premiums charged by the Health Care Insurance Fund, with premiums received from employers were considerably and consistently in arrears. Despite efforts by the Department of Hospitals and Medical Care to rectify this weakness, the situation has persisted.

This matter was discussed again with senior management during the 1981-82 annual audit and formally reported to the Deputy Minister of Hospitals and Medical Care in a management letter dated December 20, 1982, which stated:

> "As reported for a number of years, it was again observed that there was a significant backlog in the reconciliation of group accounts receivable. The amounts of cash received that had not been reconciled to group billings when this item was last reported were $30,633,010 at March 31, 1981 and $15,421,731 at September 11, 1981. The situation subsequently deteriorated and at March 31, 1982 the amount was $28,231,410. However, by October 1, 1982 it had again decreased to $16,903,974. Although the timing of the recording of revenue is not materially affected, the magnitude of these amounts is indicative of the degree to which the reconciliation process is in arrears. There will always be a certain balance of unreconciled receipts but significant progress must still be made before this area can be considered to be in a current condition. It is again recommended that measures be taken to reduce to a minimum the outstanding reconciliations of group billings with cash received from employers and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures."

Since satisfactory corrective action had not been taken by the end of the 1981-82 fiscal year, the recommendation contained in the previous three reports is repeated:

Recommendation: (No. 41) *(1978-79: No. 25)*

It is recommended that the Department of Hospitals and Medical Care reduce to a minimum the backlog in monthly reconciliations of Health Care Insurance Fund premiums charged, with premiums received from employers, and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures.

In his 1980-81 Annual Report, the Auditor General also reported that bank reconciliations had fallen considerably in arrears. Although this situation improved during the 1981-82 fiscal year, the following paragraph was included in the management letter dated December 20, 1982 to the Deputy Minister of Hospitals and Medical Care:

> "It was previously reported that bank reconciliation procedures were significantly in arrears. Improvements have resulted through the operation of a new consignment cheque services account for benefit payments. However, delays of up to approximately three months occur before outstanding cheque lists are received for the disbursement account and the old benefit payment account. It is recommended that efforts be made to obtain these outstanding cheque lists sooner so that reconciliations can be completed on a timely basis."

Since satisfactory corrective action had not been taken by the end of the 1981-82 fiscal year, the 1980-81 recommendation is repeated:

Recommendation: (No. 42) *(1980-81: No. 42)*

It is recommended that the Department of Hospitals and Medical Care reconcile the Health Care Insurance Fund's bank accounts more promptly and ensure that these reconciliations are carefully reviewed and approved by supervisory personnel.

2.6.4 PENSION ADMINISTRATION

Many of the accounting and financial control procedures used by the Treasury Department to administer public service pension plans continue to be unsatisfactory.

In the 1979-80 and 1980-81 Annual Reports, the Auditor General acknowledged the progress made towards eliminating the accounting and financial control deficiencies revealed during the 1978-79 annual audit. In the 1980-81 Annual Report, he also concluded that unless additional resources are employed to expedite the progress, the remaining deficiencies would not be eliminated for several years.

The 1981-82 annual audit revealed that additional resources were brought to bear by combining, at various levels of management, the pension and payroll functions within the Payroll and Pensions Division of the Treasury Department. In addition, further progress has been made towards eliminating the previously identified systems deficiencies, though many still remain. Among the deficiencies that still remain are:

(i) Control accounts of pension contributions received are maintained in employer order on an accounting machine and are used to verify the accuracy of the computer produced pension records. Reconciliations between the computer system records and the accounting machine records were consistently at least 6 months in arrears.

(ii) Alert messages are produced automatically by the computer system to 'flag' actual or potential errors arising during processing. A large number of these messages were not dealt with, or alternatively, were not dealt with promptly.

(iii) Inappropriate segregation of duties relating to the completion of certain input forms continued to be an internal control weakness. These forms are used to re-activate previously closed employee accounts in order to process delayed adjustments thereto. In many instances, these forms were completed by the data control section which also reconciles the computer system employee accounts with the accounting machine records.

(iv) The Alberta Financial Information System (AFIS) is unable to process automatically pension reductions for individuals who chose to co-ordinate their pensions with Old Age Security and/or Canada Pension. Moreover, AFIS is unable to produce a listing of imminent pension reductions in a form readily useful to the Pension Section.

(v) Local Authorities are required to submit a copy of their payroll for the previous twelve months showing pensionable earnings and pension contributions deducted which has been audited by an independent auditor. There were many instances where audited

payrolls were not received and where audited payrolls received were not reviewed to ensure that audited amounts corresponded with amounts reported by the Local Authorities during the year.

(vi) Employers are required to sign a statement of remittance which is enclosed with and provides details of the monthly payment of pension contributions. Instances were observed where these statements were not signed by the employer.

(vii) As a result of the system failing to provide the necessary detail, input errors identified at the edit stage are not corrected until the errors are again identified at a later stage following a comparison of the computer output with the accounting machine records.

(viii) When terminating employees request pension contribution refunds, refund forms are completed to update the employees' files and generate the cheques. Refund forms are not prenumbered to enable them to be numerically controlled.

(ix) A microfiche history file is maintained for each employee containing a history of the employee's pensionable employment. Errors occurred, including the overpayment of refunds and overtransfers to terminating employees, which could have been avoided if the employee's history file had been checked before taking action on the employee's account.

(x) Cheques received are not always banked promptly.

(xi) Although there has been substantial progress towards preparing procedural manuals and systems documentation, this important task is still not complete.

(xii) Annual statements of pension contributions were not distributed to employees during the year, even on a sample basis.

Recommendation: (No. 43)

It is recommended that the Treasury Department continue with efforts to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

2.6.5 TREASURY BRANCHES – MINISTERIAL APPROVAL

The Treasury Branches Deposits Fund has continued to transfer funds from operating surplus to the General Revenue Fund of the Province without the necessary ministerial approval.

Treasury Branches operate pursuant to the Treasury Branches Act, which requires in section 9(5) that all transfers of surplus to the General Revenue Fund be approved by the Provincial Treasurer. During annual audits for the years ended March 31, 1981 and 1982, however, no formal ministerial approvals were obtained to support these transfers.

During the audit for the year ended March 31, 1981, this matter was reported to the Provincial Treasurer and the Deputy Provincial Treasurer in a management letter dated August 21, 1981, which stated:

> "..... Ministerial approval was not obtained for the transfer of $10,500,000 from the Fund to the General Revenue Fund. Section 9(5) of the Treasury Branches Act states that the Minister may transfer all or any portion of the surplus of the Fund into the General Revenue Fund. To comply with the Act, Ministerial approval should have been obtained prior to this transfer."

The above matter was subject to report to the Legislative Assembly under section 19(2) of the Auditor General Act. However, under the discretionary powers provided by section 25 of the Act, it was not included.

During the audit for the year ended March 31, 1982 it was observed that the problem still persisted. Accordingly, the matter was discussed with senior management and again formally reported to the Provincial Treasurer and the Deputy Provincial Treasurer in a management letter dated August 17, 1982 which stated:

"..... Ministerial approval was not obtained for the transfer of $1,000,000 (1981: $10,500,000) from the Fund to the General Revenue Fund. Section 9(5) of the Treasury Branches Act states that the Minister may transfer all or any of the surplus of the Fund into the General Revenue Fund. To comply with the Act, Ministerial approval must be obtained prior to this transfer."

Recommendation: (No. 44)

It is recommended that the Treasury Branches Deposits Fund obtain formal Ministerial approvals for transfers of funds, both to date and in future, from surplus to the General Revenue Fund.

2.6.6 TREASURY BRANCHES – RECONCILIATIONS

The Auditor General's Annual Report for 1980-81 contained an observation that the Treasury Branches Deposits Fund was not reconciling, on a timely basis, its term deposits computer system with records maintained at branches. Because this important control deficiency had persisted for two consecutive years, it was recommended that remedial action be taken without further delay.

The annual audit for the year ended March 31, 1982 revealed that reconciliations were performed promptly throughout that year. Accordingly, the recommendation is not repeated in this report.

2.7 LIMITATIONS OF ACCESS TO INFORMATION

(Reported pursuant to subsection 19(1)(b) of the Auditor General Act.)

2.7.1 AUDIT OF PROVINCIAL INCOME TAXES

The Government of Alberta has entered into a tax collection agreement with the Government of Canada under the authority contained in section 58 of the Alberta Income Tax Act. Under the agreement the Government of Canada, as agent of the Government of Alberta, collects income taxes imposed by the Alberta Income Tax Act.

The terms of the tax collection agreement dealing with access to information, effectively prevent the Auditor General of Alberta performing the audit work necessary to report on the collection of Provincial income taxes as required by subsection 19(2)(a)(i) of the Auditor General Act. The subsection requires the Auditor General of Alberta to report every case in which he has observed that collections of public money have not been effected as required under the various Acts and regulations, directives or orders under those Acts.

The access rights of the legislative auditors of provinces having similar tax collection agreements are restricted in the same way. Because the Auditor General of Canada has access to all necessary information, the legislative auditors agreed in 1979 to form a task force made up of representatives of the provincial legislative auditors and the Auditor General of Canada.

The objectives of the task force were:

— To obtain assurance, to the extent possible within the audit limitations imposed by the tax collection agreements, that the assessment, allocation and transfer to the provinces of provincial income taxes by the Government of Canada comply with the federal and provincial statutes and agreements, and to report its findings to the provincial legislative auditors.

— To make a proposal for the future audit of provincial income taxes.

To achieve the first objective the task force identified the major audit concerns of the provinces, reviewed the scope, procedures and findings of relevant audits conducted by the Office of the Auditor General of Canada and reported its conclusions to the provincial legislative auditors. The task force did not audit any of the Government of Canada's taxation records.

The Auditor General of Alberta has reviewed the third and final report of the task force relating to the assessment, allocation and transfer to the provinces of provincial income taxes for the 1979 taxation year. Based on that report, the Auditor General is satisfied, to the extent that the Government of Canada systems were reported upon by the task force, that there are no observed deficiencies in the accounting systems and control procedures that should be reported to the Legislative Assembly.

In fulfilling the second objective the task force proposed changes to the tax collection agreements. These changes were intended to allow provincial legislative auditors to audit income taxes satisfactorily by removing the access restrictions presently imposed upon them. This proposal was outlined in the Auditor General's 1980-81 Annual Report. Though acceptable to the Auditors General of Canada and Alberta, the proposal met with opposition from officials of the Federal Department of Finance and for this reason the question of removing the access restrictions has temporarily been put in abeyance.

As a result of this objection, the task force drafted an alternative proposal which was accepted by the legislative auditors at their Annual Conference in Victoria in July, 1982. The accepted proposal requires the Auditor General of Canada to provide an annual attest audit opinion on financial statements disclosing provincial income taxes assessed, allocated, paid and due to the provinces. The audit working papers supporting the opinion will be available for review by all provincial legislative auditors. The Auditor General of Alberta accepted the alternative proposal because it provides better audit assurance than was previously available. Following acceptance of the proposal the task force was disbanded. The Auditor General of Alberta acknowledges with gratitude the exceptional co-operation and assistance received from the Auditor General of Canada and his staff, and from the representatives of the other provincial legislative auditors involved, in developing these joint initiatives.

The acceptance of the alternative proposal concerning the audit of Provincial income taxes, does not, in the opinion of the Auditor General, alter the desirability of removing the access restrictions imposed by the current tax collection agreement. It is recognized, however, that removing these restrictions requires the accord of all parties to the agreement and since this has not been reached, the matter is postponed for future consideration.

2.7.2 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH

In the 1980-81 Annual Report, the Auditor General stated that Audit Office staff were refused access to minutes and internal reports of the Department of Social Services and Community Health. This refusal contravened section 15(1) of the Auditor General Act which allows the Auditor General access at all reasonable times to departmental records for any purpose related to the performance of his duties.

The Auditor General formally recommended that the Minister of Social Services and Community Health remove the restrictions improperly imposed on the Audit Office's right of access.

In March 1982, the Associate Deputy Minister of Social Services and Community Health advised the Auditor General that access by Audit Office representatives to the minutes and reports concerned would in future be unrestricted. Since this matter is now resolved, the recommendation is not repeated in this report.

2.8 GENERAL OBSERVATIONS

2.8.1 PROGRAM EFFECTIVENESS – ACCOUNTABILITY

Control over the Alberta "public purse" would be improved by enhancing the accountability information tabled in the Legislative Assembly.

Accountability has been described as the cornerstone of the democratic system of government. As such, its importance cannot be over-emphasized. It is the process by which the elected legislative body exercises control over the government and its administrators. It is a process which allows the people and their representatives to evaluate the quality of the government's administration.

The accountability process or cycle in a parliamentary system of government has four basic components. These are as follows:

(1) At the beginning of each fiscal year, the government prepares a budget for approval by the legislative body. This budget contains information analysed by program on:
   — how much money is required,
   — how the money will be spent, and
   — what is the objective of (or will be achieved by) spending the money.

(2) Following debate the legislative body approves the budget. This has the effect of providing funds to the government to be held in trust and used for the purposes for which the funds were approved.

(3) The government uses the funds for the approved objectives.

(4) After the end of each fiscal year, the government reports back to the legislative body on:
   — how much money was spent,
   — what the money was spent on,
   — what was achieved by spending the money, and
   — the degree to which what was achieved satisfied the previously approved objective of spending the money.

   The Legislative Auditor adds credibility to this information.

This then is the accountability cycle which enables the legislative body to exercise control over government spending and activities. In some cases funds are provided by statute and annual approval by the legislative body is not required. Even in these cases however, the government must still report back to the legislative body on the matters outlined in (4).

Measuring the extent to which a program achieves its legislatively approved objectives is commonly referred to as measuring the effectiveness of the program. The annual Public Accounts of the Province of Alberta satisfy the accountability objective of reporting to the Legislative Assembly on how much money is spent and on what it is spent. However, the equally important accountability objective of reporting on the program's effectiveness is rarely satisfied.

This should not be inferred as suggesting that the Public Accounts should include reports on program effectiveness. More appropriate media for reports of this nature are the annual reports tabled each year in the Legislative Assembly by most departments and agencies. Currently, these reports usually contain the financial statements or similar financial data of the department or agency and a review of its accomplishments. Only rarely do they contain a measurement of the extent to which these accomplishments achieve the legislatively approved objectives of the programs the entities administer.

The effectiveness of a program cannot be measured meaningfully unless the program's objectives are defined in a specific manner. It is acknowledged, however, that it is not always possible to define program objectives in absolute terms. It is also acknowledged that it may not always be feasible, economical or easy to measure the effectiveness of all programs or all parts of programs. Nevertheless, where appropriate and reasonable measurement procedures can be

used, considerable benefits may be derived from establishing such procedures. For example, clearly defined program objectives and goals provide the Legislative Assembly and program administrators with definitions of the purposes for which the approved funds are to be spent. In addition, by subsequently measuring and reporting to the Legislative Assembly the extent to which the predetermined objectives were subsequently met, proper accountability is achieved.

In Annual Reports to the Legislative Assembly for the past three years, the Auditor General criticized the non-specific manner in which program objectives are defined in the Province's annual Estimates of Expenditure. He also commented on the general lack of systems designed to measure and report on program effectiveness and made the recommendation (1978-79: No. 43) repeated below.

Although the Auditor General has not received a formal government response to the recommendation contained in his 1980-81 Annual Report, formal and informal responses to similar recommendations in prior reports were generally unsympathetic. Several of these responses indicated misunderstandings of the rationale behind this recommendation and sought to justify the present situation. For example, it was noted that program objectives are currently included in the annual Estimates of Expenditure, that annual reports tabled by departments and agencies contained quantitative and descriptive data on program activities and that the effectiveness of program delivery is continually being reviewed by managers, ministers and the Legislative Assembly.

In connection with these responses, firstly, the problem is not that program objectives are not included in the Estimates of Expenditure; the problem is that in most cases they are defined in such non-specific terms that it is impossible, in a meaningful way, to subsequently measure the extent to which they are achieved. Secondly, although annual departmental reports contain quantitative and descriptive data on program activities, effectiveness is not measured and reported on because the achievements resulting from those activities are not compared against the legislatively approved program objectives. Lastly, it does not satisfy the stated accountability model for ministers and program managers to review or measure program effectiveness unless the information obtained is reported to the Legislative Assembly. For the accountability cycle to be complete, the Legislative Assembly should receive, whenever practicable, reports comparing each program's achievements with the objectives originally approved by the Legislative Assembly. At the present time, very little accountability information of this nature is tabled.

The information available from organized, documented and systematic program evaluations would also be valuable to the government when reviewing budgets. It would provide a basis for being more selective and precise when reviewing and decreasing the funds to be provided for future expenditures. This enhanced selectivity could ensure that "muscle" is not cut out along with the "fat", which appears particularly important in the present and foreseeable economic climate. It is believed that budget cuts based on credible program performance information would be more easily explained and accepted.

Using performance information in the manner suggested is another way of using historical accounting and management information as a basis to guide future action.

In its response to the recommendation contained in the 1979-80 Annual Report of the Auditor General, the government agreed by stating that it will give careful attention to the results of the Audit Office's management control systems audits to identify areas where the information obtained can be used to measure program achievements. The Audit Office is currently developing and testing the standards and methodologies it has devised for conducting management control systems audits.

Pending further progress in this direction, and since no formal response was received to its inclusion in the 1980-81 Annual Report of the Auditor General, the recommendation is repeated.

Recommendation: (No. 45) *(1978-79: No. 43)*

It is recommended that the objectives of all programs be published in as specific a manner as possible, with quantitative data being provided wherever practicable as measures of the intended results to be achieved by the expenditure of the funds requested for the programs. At the end of each fiscal year, reports should be prepared on behalf of the responsible Ministers evaluating

the achievements, resulting from the expenditure of funds for programs, in terms of the objectives and quantitative data given in the estimates. These reports (based on information generated by systems subject to audit by the Auditor General) should result from organized, documented and systematic evaluations of program activities. The reports would be laid before the Legislative Assembly by the appropriate Ministers as a part of their accountability reporting.

Another area in which accountability information tabled in the Legislative Assembly could be improved concerns published documentation supporting estimates (budgets) for major capital construction projects.

Major capital construction projects often extend over several years. Before starting such projects, private sector entities normally prepare detailed budgets for management review and approval. These budgets, often on a phase by phase basis, cover such matters as fixed and escalating costs, funding sources, cash flows, inflation factors, completion deadlines, etc. Rarely would management approve funds for part of a capital project without reviewing the costs etc., of the project as a whole.

In the government sector, however, it is accepted practice for the legislative body to approve capital expenditures annually. For the legislative body to vote on annual capital expenditures in an informed manner, therefore, it is logical that it should have certain information about the project as a whole. As a minimum, this should include the scope of the project and revisions thereto, actual and anticipated year-by-year costs for the whole project and the extent to which the figures recognize the effect of monetary inflation. At present, this information is not available in Alberta's published annual Estimates of Expenditure (budgets).

It is acknowledged that Members of the Legislative Assembly requiring budget information of this nature may request it from Ministers during debate on supply votes in the Legislative Assembly. A review of these debates as reported in Alberta Hansard, however, indicates that this process could be improved. Generally, the information published on capital construction budgets is so meagre that it effectively inhibits informed questioning. It also inhibits meaningful post-expenditure reviews of capital projects by the Legislative Assembly.

On several occasions in past years, rumours of cost overruns on multi-year capital construction projects have provoked legislative and public debate. Inevitably, meaningful discussion was hindered by the absence of formally published project budgets. It was unclear whether the project budget figures quoted were official or unofficial, whether they covered the whole project or only a phase of it, or whether or not they included allowances for monetary inflation. This created difficulties when determining whether or not there were cost overruns, and if there were, whether they were caused by inaccurate budgeting, poor cost management or additions to the originally envisioned project. If more comprehensive budget information on the project as a whole had been published, most of this uncertainty could have been avoided.

In the 1979-80 and 1980-81 Annual Reports, the Auditor General made the recommendation (1979-80: No. 34) repeated below. While it is acknowledged that it has not been customary to publish budget information of this nature, the Auditor General believes that to do so would be progress towards improving the suitability of the annual estimates as a basis for controlling disbursements at both the Legislative and executive levels of government.

Pending a formal response to the recommendation contained in the Auditor General's 1980-81 Annual Report, the recommendation is repeated herein:

Recommendation: (No. 46) *(1979-80: No. 34)*

It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills should be supported by more extensive financial information on major capital expenditure projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future

costs in relation to the original cost forecast, and the total estimated cost for each project. (This recommendation should not be interpreted as suggesting that the Legislative Assembly should approve other than the next fiscal year's expenditures on these projects.)

2.8.2 TIMELINESS OF FINANCIAL REPORTING

The Province of Alberta's annual Public Accounts and the Auditor General's Annual Reports would be more useful to the Legislative Assembly and the public if they were published earlier.

It is generally acknowledged that for reports to be effective, they must be timely. For reports to be meaningful and relevant, they must be issued soon after the periods to which they relate. Otherwise, the reported information is out-of-date and of limited value.

The Province of Alberta's fiscal year-end is March 31. The Public Accounts of the Province for recent fiscal years, however, were published in January or February of the following year. Hence, they were unavailable to the Assembly and its standing committees until ten or eleven months after the fiscal year-end to which they related. Similarly, during the same period the Auditor General's Annual Reports were published approximately one year after the end of the related fiscal year.

In the opinion of the Auditor General, the Public Accounts of the Province and the Auditor General's Annual Reports should be tabled during the fall sitting of the Legislative Assembly. In this regard, it should be noted that the 1981-82 Public Accounts of Canada were published in November 1982.

The Auditor General acknowledges that while it is easy to find persuasive reasons for timely reporting, achieving timeliness is more difficult. Preparing annual reports more quickly is only part of the answer. Achieving the suggested reporting deadline will require many and fundamental changes to the methods now used as well as the wholehearted support of the Government and senior management.

It will first be necessary to weigh the benefits to be derived from more timely reporting against the costs involved in achieving it. In this regard, many benefits will be intangible and difficult to quantify. For example, what value will the Select Standing Committee on Public Accounts place on being able to review Public Accounts and the Auditor General's Annual Report much closer to the periods to which they relate?

Producing Public Accounts within the suggested time-frame will require careful co-ordination and changes to the accounting procedures currently used. The Treasury Department as co-ordinator will need to establish and enforce deadlines for closing books of account and preparing financial statements for all departments, funds and Provincial agencies. The deadline for preparing satisfactory financial statements of individual entities will probably need to be one or two months after each fiscal year-end,to allow sufficient time thereafter for completing audits, consolidating financial statements and printing public accounts and the Auditor General's Annual Reports.

Imposing the suggested deadline for preparing financial statements is impossible at present. One reason for this is that the centralized revenue reporting system and the accounts receivable systems of some departments do not facilitiate accurate reporting until several months after fiscal year ends. Another reason is that the payment of accounts systems used by most Government entities to determine accounts payable produce reports in a similar time-frame. In addition, final reports on payments processed by the central payments systems are not produced until four or five months after fiscal year-ends. The deficiencies which contribute to delays of this type will need rectifying, and in many cases new or improved systems will be required.

The Audit Office would also need to change its present operating methods. Whereas at present many annual audits are completed in September or October, they would all have to be completed much earlier to achieve the suggested tabling deadline. This would mean that virtually all systems and transactional auditing would have to be completed by March 31 each year leaving the next few months available for completing the audits and subsequent reporting.

Some jurisdictions have attempted to satisfy the need for more timely financial reporting by issuing interim unaudited financial reports. In the view of the Auditor General, this is not a tenable alternative since invariably it results in duplication of effort, and occasionally, in the publication of inaccurate and misleading information.

When confronted with having to produce annual financial statements much earlier than at present, senior financial management of some Government entities may consider the deadlines unrealistic. In this regard, at least one major Provincial agency produces draft financial statements within one month of the end of its fiscal year, with audited financial statements being issued within nine weeks of the year end. If this Provincial agency can produce audited financial statements in just over two months, other Government entities should be able to do likewise.

It is acknowledged, however, that annual reporting within the suggested time-frame cannot be achieved immediately. As already stated, the accounting systems currently used by many entities are incapable of producing the information required to prepare annual financial statements within the time-frame envisaged. Creating the necessary environment and establishing the necessary procedures to achieve the suggested reporting deadlines would, in all probability, take several years.

Recommendation: (No. 47)

It is recommended that, if the Legislative Assembly considers it worthwhile, and/or the Government determines that more timely reporting should be an objective, the Government should initiate a study involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly.

3 PUBLIC ACCOUNTS

This section of the Annual Report contains a commentary on the main elements of the Public Accounts of the Province, viz. the Consolidated Financial Statements of the Province, the General Revenue Fund and the Alberta Heritage Savings Trust Fund.

3.1 AUDITOR'S REPORT

3.1.1 Under section 18 of the Auditor General Act, after the end of each fiscal year of the Crown, the Auditor General reports to the Legislative Assembly on the financial statements of the Crown for that fiscal year.

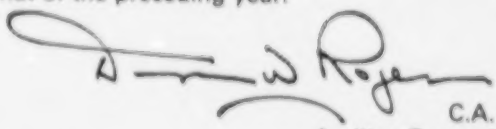
The report issued pursuant to section 18, on the consolidated financial statements of the Province for the year ended March 31, 1982, is reproduced hereunder:

AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1982 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting described in Note 1 to the consolidated financial statements applied, after giving retroactive effect to the changes in accounting policies, explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.



C.A.
Auditor General

Edmonton, Alberta
December 10, 1982

3.1.2 The Public Accounts of the Province for the year ended March 31, 1982 are presented in two volumes. Volume I contains the following financial statements, together with the reports of the Auditor General thereon:

1) Consolidated financial statements of the Province of Alberta.
2) Financial statements of the General Revenue Fund.
3) Financial statements of revolving funds, regulated funds, Provincial agencies and trust funds administered by the Government.

Volume II contains details of expenditure and revenue by department, and statements and reports included in the Public Accounts in accordance with the Financial Administration Act and other statutes. In addition to the Public Accounts, a report containing details of expenditure by payee is provided as supplementary information.

3.1.3 The Auditor's Report in subsection 3.1.1 above covers the consolidated financial statements of the Province. A similar Auditor's Report covers the financial statements of the General Revenue Fund – which are contained in Volume I of Public Accounts – as well as various details of departmental expenditure and revenue contained in Volume II.

The report containing details of expenditure by payee is not covered by the Auditor's Reports mentioned in the previous paragraph since it is not an integral part of Public Accounts. However, the system employed to produce the information contained therein is subject to review by the Auditor General.

3.2 CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE OF ALBERTA

3.2.1 The consolidated financial statements of the Province are an aggregation of the financial statements of most entities owned and controlled by the Province of Alberta. The two main components are the General Revenue Fund and the Alberta Heritage Savings Trust Fund.

3.2.2 The following is a summary of the consolidated net revenue and net assets of the Province for the year ended March 31, 1982, and the reported assets, liabilities and net assets at that date, with comparative figures for 1981:

	1982	1981	Increase/(Decrease)	
		(Millions of Dollars)		
Consolidated net revenue and net assets:				
Revenue	$10,541	$9,468	$1,073	11.3%
Expenditure	8,426	6,657	1,769	26.6%
Net revenue before extraordinary expenditure	2,115	2,811	(696)	(24.8)%
Extraordinary expenditure:				
The Pension Fund Act	—	1,100	(1,100)	(100.0)%
The Hospital Debt Retirement Act	—	329	(329)	(100.0)%
	—	1,429	(1,429)	(100.0)%
Net revenue	2,115	1,382	733	53.0%
Net assets (surplus) at beginning of year	9,912	8,530	1,382	16.2%
Net assets (surplus) at end of year	$12,027	$9,912	$2,115	21.3%
Consolidated reported assets, liabilities and net assets:				
Current assets	$6,980	$6,763	$217	3.2%
Long term investments	2,534	2,076	458	22.1%
Equity in commercial enterprises	1,779	1,456	323	22.2%
Loans and advances	5,994	4,164	1,830	44.0%
	17,287	14,459	2,828	19.6%
Less: Current liabilities	1,646	1,363	283	20.8%
Unmatured debt	2,160	1,973	187	9.5%
Restricted profits and equity	1,454	1,211	243	20.1%
	5,260	4,547	713	15.7%
Net assets (surplus) at end of year	$12,027	$9,912	$2,115	21.3%

3.2.3 The consolidated net assets (surplus) of $12,027 million at March 31, 1982, can be interpreted as being the net worth of Provincially administered assets at that date. Care must be taken, however, to recognize the effects on that figure of certain accounting principles employed in preparing the consolidated financial statements.

The following accounting principles and policies, most of which are described in the notes to the financial statements, had a significant impact on the consolidated net assets of the Province at March 31, 1982:

(1) The consolidation excludes the financial statements of the Provincially owned universities, colleges, hospitals and related funds listed in subsection 4.1.3 of this report. This is because section 2(5) of the Financial Administration Act exempts these entities from inclusion in the Public Accounts of the Province.

(2) The consolidation excludes the financial statements of Crown-controlled organizations (of which the most significant is Pacific Western Airlines Ltd.). Although the Province holds a majority of the voting shares in these entities, and therefore they may be considered to be subsidiaries, these investments are included in the consolidated financial statements at original cost.

(3) The Province's consolidated net assets at March 31, 1982 exclude Provincially owned fixed assets. This means that they do not include the value of the Province's land, buildings, equipment, fixtures and furniture. Many of these assets are readily marketable and accordingly, would significantly increase the Province's consolidated net assets if it was decided to sell them.

An exception to the accounting policy of not including fixed assets in consolidated net assets are entities designated "commercial enterprises" by the Treasury Department. Although the assets and liabilities of commercial enterprises are not aggregated on a line-by-line basis in the consolidated financial statements of the Province, they are recorded therein on an equity accounting basis. This has the effect of including the depreciated values of their fixed assets in the consolidated net assets of the Province. Entities designated commercial enterprises are:

Alberta Liquor Control Board
Alberta Terminals Ltd.
The Alberta General Insurance Company
The Alberta Government Telephones Commission
The Workers' Compensation Board
Treasury Branches Deposits Fund

The rationale for including the assets of these entities is that they will be used in future fiscal periods to earn revenue. The remainder of the Province's fixed assets are not included in the consolidated net assets. It is impossible for the Audit Office to estimate, with any degree of accuracy, the value of these fixed assets. (See subsection 2.5.1 of this report). An idea of the magnitude of the figure may be gained from the value of fixed assets of the revolving funds. These assets are eliminated on consolidation. At March 31, 1982, the fixed assets in revolving funds had a total book value of approximately $217 million, and this figure does not include most Provincially owned land and buildings. Regardless of the valuation method used, it is obvious that including all the Province's fixed assets in the consolidated statements would increase significantly the consolidated net assets of the Province.

(4) The consolidated financial statements exclude a major portion of the liability arising on the Province's various pension plans. This matter is dealt with more fully in subsection 2.5.2 of this report.

If the total liability for unfunded pension plans was included in the consolidated financial statements and no portion of it was deferred, the consolidated net assets (surplus) of the Province at March 31, 1982 would be reduced by approximately $5.3 billion.

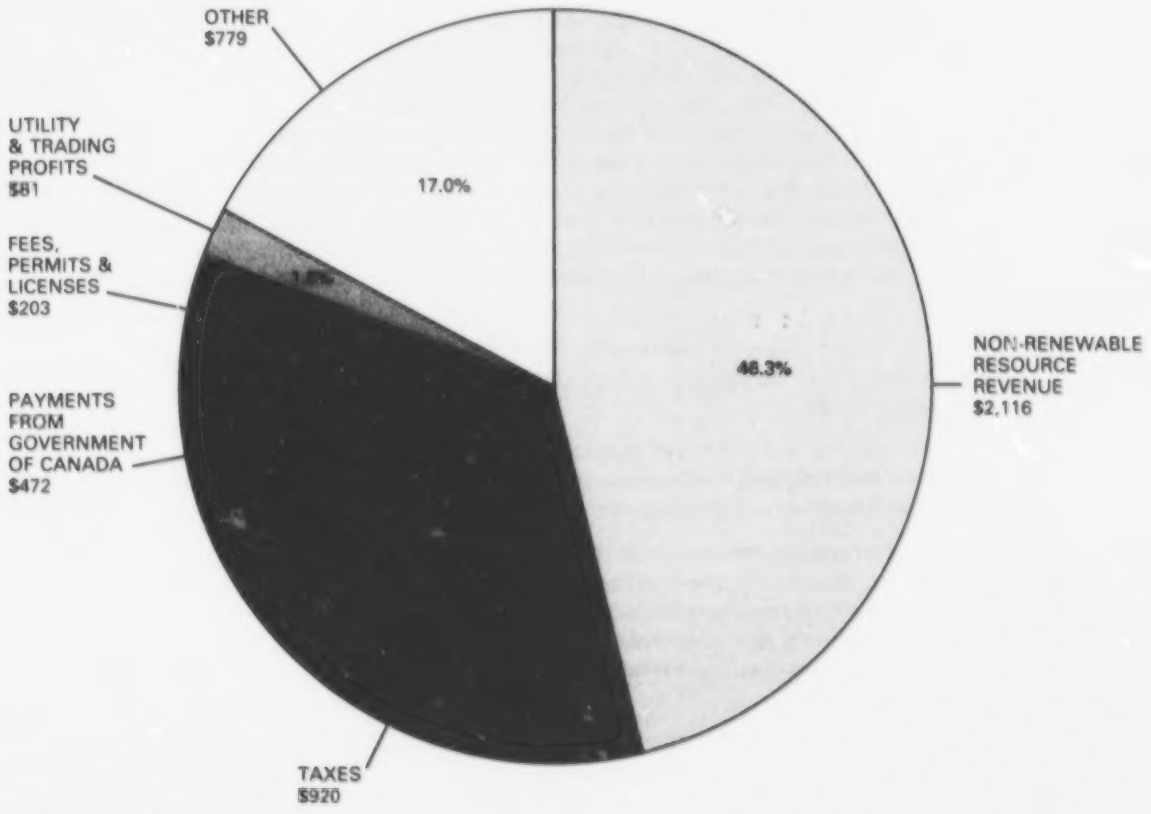
3.2.4 The foregoing comments are to provide the reader with a better understanding of the published consolidated net assets and the methods employed in preparing the consolidated financial statements. They should not be interpreted as criticism since the methods used comply broadly with both the governing statutes and accounting observations and suggestions contained in the Canadian Institute of Chartered Accountants' publication "Financial Reporting by Governments".

Changes and improvements will undoubtedly be made to the consolidated financial statements in future years. Nevertheless, in the opinion of the Auditor General, the accounting bases and methods of consolidation presently employed are reasonable and appropriate in the circumstances.

3.2.5 The consolidated statement of revenue and expenditure presents revenue and expenditure in aggregate form. The following statement shows where the surpluses and deficits arose for the two years March 31, 1982 and 1981:

	1982	1981
	(Millions of Dollars)	
General Revenue Fund:		
Revenue	$7,084.7	$6,578.3
Expenditure:		
Voted appropriations	6,925.5	5,548.6
Statutory appropriations	118.1	1,441.3
	7,043.6	6,989.9
Budgetary surplus (deficit)	41.1	(411.6)
Net income (loss) of consolidated entities:		
Regulated funds	2,259.3	1,985.2
Provincial corporations	(176.8)	(167.6)
Income retained by commercial enterprises	(8.1)	(24.0)
Consolidated net revenue	$2,115.5	$1,382.0

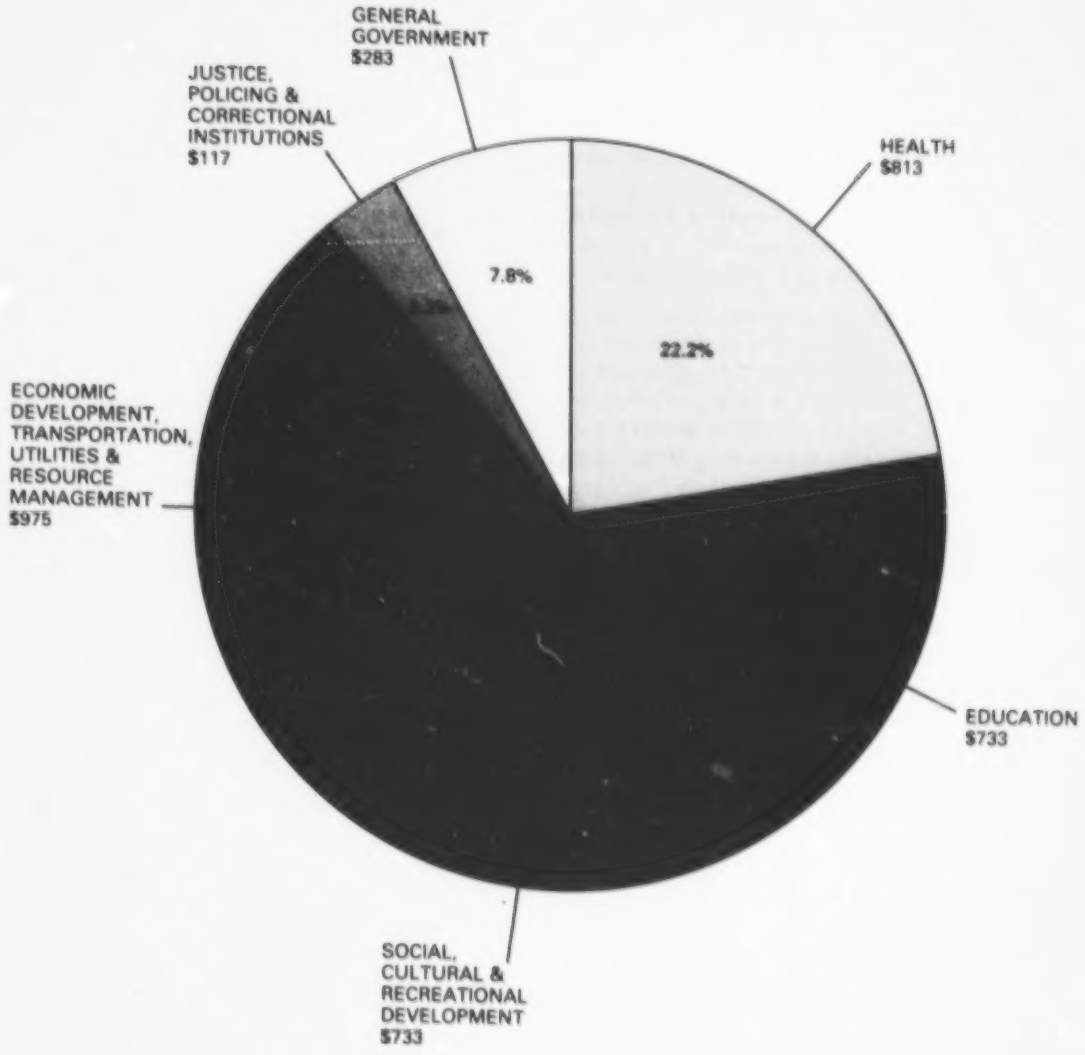
3.2.6 The following chart shows the dollar and percentage distribution of revenue by major sources on a per capita basis for 1981-82:



TOTAL REVENUE PER CAPITA – 1981-82 $4,571 (1980-81 $4,251)

POPULATION, estimated by Statistics Canada at April 1, 1982 2,306,000, (at April, 1981 revised 2,227,400).

3.2.7 The following chart shows the dollar and percentage distribution of expenditure by major expenditure classification on a per capita basis for 1981-82 (excluding extraordinary items):

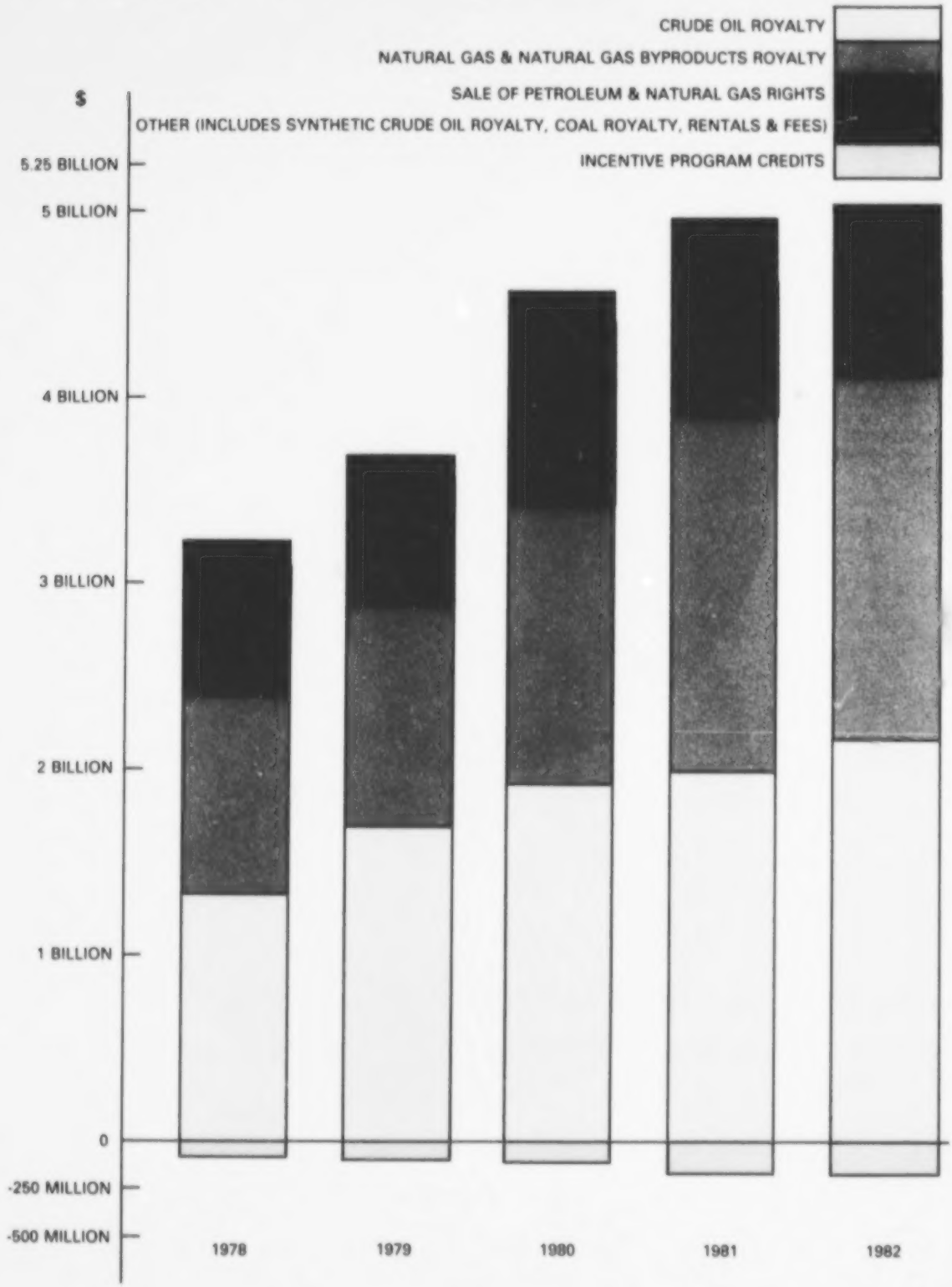


TOTAL EXPENDITURE PER CAPITA – 1981-82 $3,654 (1980-81 $2,989)

POPULATION, estimated by Statistics Canada at April 1, 1982 2,306,000, (at April 1, 1981 revised 2,227,400).

3.2.8 Non-renewable resource revenue

The following chart shows non-renewable resource revenue by source for 1978 to 1982 before allocation to Alberta Heritage Savings Trust Fund and Natural Gas Rebates Fund. The costs of incentive program credits are shown as negative amounts.



3.2.9 The following rights and obligations accrue to the Province pursuant to its participation in the Syncrude joint venture:

Pursuant to the terms of agreements dated February 1975, the Alberta Heritage Savings Trust Fund loaned $100 million to each of Gulf Canada Ltd and Canada-Cities Service Ltd, both of which are participants in the Syncrude joint venture. These loans were secured by debentures convertible at the holder's option to an interest in the borrower's equity in the joint venture at any time before March 1, 1984. Upon exercising the option, the capitalized interest to March 1, 1979 in the amount of $36 million would be treated as part of the option consideration. The Province exercised its option effective January 1, 1982, and acquired an additional 8.74% interest in the Syncrude joint venture, thereby increasing its equity participation to 16.74%.

The participants in the Syncrude joint venture are committed to provide financing for offsite accommodation for Syncrude Canada Ltd employees. Northward Developments Ltd is a company formed for the purpose of providing offsite housing and is owned by the participants in the same ratio that they participate in the Syncrude joint venture. At March 31, 1982 it was estimated that capital costs to complete offsite housing projects amounted to $15 million.

Responsibility for construction of a utilities plant to service the Syncrude Project was assumed by A.E.C. Power Ltd, an Alberta company in which Alberta Energy Company Ltd holds two-thirds of the issued share capital. Under the authority of Order in Council 602/76 dated June 1, 1976, the Province has guaranteed loans (including accrued interest) to A.E.C. Power Ltd which at March 31, 1982 amounted to approximately $256 million. The guarantees become effective if, at any time, the joint venture participants give notice to A.E.C. Power Ltd that the Syncrude Project has been abandoned.

Responsibility for cons[illegible]tion or acquisition of a pipeline for the transportation of synthetic crude oil was assumed by Alberta Oil Sands Pipeline Ltd, an Alberta company wholly owned by Alberta Energy Company Ltd. If at any time the Syncrude joint venture participants give notice to the Company that the Syncrude Project has been abandoned, the participants are committed to guarantee (in their participation ratio) repayment of any outstanding debt incurred by the Company for the financing of the pipeline.

The participants in the Syncrude joint venture have entered into an agreement covering the construction, financing and operation of a natural gas pipeline to supply natural gas to the Syncrude Project. In the event of abandonment of either the Syncrude Project or the pipeline, the Syncrude joint venture participants may be required to repay (in their participation ratio) any amounts owing with respect to the bonds issued to finance the pipeline construction. Furthermore, in the event of default by the pipeline operator, the participants may purchase, at fair market value, the operator's interest in the operating equipment and may assume the operator's rights and obligations under the pipeline lease agreement.

Under the terms of the Alberta Crown Agreement, which stipulates the basis of calculation of the Province's royalty relating to the Syncrude Project, the Project was deemed to have entered its operating phase on March 1, 1979. From that date, the Province had a direct 50% interest, in lieu of royalty, in the deemed net profits of the joint venture. At the discretion of the Province, the 50% interest may be taken in product and sold directly, or sold by the participants on behalf of the Province. The Province has an irrevocable option, which may be exercised once only, and after March 1, 1984, to convert its 50% interest in the deemed net profit to a 7 1/2% interest in the gross production of the Project. This interest also may be taken in product and sold directly, or sold by the other participants on behalf of the Province. Both of the above interests are subject to a requirement that 30% of the Province's revenue from non-renewable resources be transferred to the Alberta Heritage Savings Trust Fund, providing that the transfer is authorized by a special Act.

By virtue of its 16.74% (1981 – 8%) interest in the joint venture, the Province of Alberta (through the Alberta Heritage Savings Trust Fund) has a 16.74% interest in the venture's production and is responsible for a proportionate share of costs and expenditures incurred in connection with the operation of the joint venture.

3.3 GENERAL REVENUE FUND

3.3.1 The following shows the summarized financial results of the General Revenue Fund for the year ended March 31, 1982, with comparative figures for 1981:

	1982	1981	Increase/(Decrease)	
		(Millions of Dollars)		
Revenue	$7,084.7	$6,578.3	$506.4	7.7%
Expenditure:				
Voted appropriations	6,925.5	5,548.6	1,376.9	24.8%
Statutory appropriations	118.1	12.7	105.4	829.9%
	7,043.6	5,561.3	1,482.3	26.7%
Budgetary surplus before extraordinary appropriations	41.1	1,017.0	(975.9)	(96.0)%
Extraordinary statutory appropriations:				
* The Hospital Debt Retirement Act	—	328.6	(328.6)	
** The Pension Fund Act	—	1,100.0	(1,100.0)	
	—	1,428.6	(1,428.6)	
Budgetary surplus (deficit)	$ 41.1	$ (411.6)	$ 452.7	

* Under authority of The Hospital Debt Retirement Act, assented to on April 30, 1980, an amount of $328.6 million was charged as expenditure in 1980-81. The primary purpose of the expenditure was to provide for the full repayment of outstanding principal and payment of accrued interest on hospital and nursing home debentures issued prior to March 31, 1980.

** Under authority of The Pension Fund Act, assented to on November 27, 1980, an amount of $1,100 million was charged as expenditure in 1980-81.

3.3.2 The following provides a summary of the transactions accounting for the decrease in cash and term deposits during the year ended March 31, 1982, with comparative figures for 1981:

	1982	1981
	(Millions of Dollars)	
Budgetary surplus (deficit)	$41.1	$(411.6)
Items included in budgetary deficit not affecting cash	16.9	(38.1)
Funds provided by (required for) budgetary transactions	58.0	(449.7)
Non budgetary transactions:		
Repayment of loans and advances:		
Brazeau River development costs recoverable from TransAlta Utilities Corporation	4.4	4.4
The Alberta Government Telephones Commission	1.2	2.0
Municipal Loans Revolving Fund	1.1	2.1
Students Loan Fund	—	1.4
Others, net	3.0	(4.9)
Loans and advances:		
Rural Electrification Revolving Fund	(5.0)	(6.0)
Motion Picture Development Fund	(3.0)	—
Alberta Hail and Crop Insurance Corporation, net	(1.7)	.3
Purchase of investments, net	(307.4)	(1.9)
Debt retirement including sinking fund	(10.0)	(10.9)
Increase in unearned revenue and suspense	(18.9)	45.2
	(336.3)	31.7
Net funds required	278.3	418.0
Add (deduct):		
Increase in receivables	294.9	149.0
Increase in payables	(169.7)	(25.1)
	125.2	123.9
Decrease in cash and term deposits	$ 403.5	$ 541.9

3.3.3 The following provides a comparison, in summarized form, of the budgetary surplus (deficit) results for the year ended March 31, 1982 with the 1981-82 estimates.

	Actual	Estimates		Over/(Under) Estimates
		(Millions of Dollars)		
Revenue	$7,084.7	$6,367.0	$717.7	11.3%
Expenditure:				
Voted appropriations	6,925.5	6,653.8	271.7	4.1%
Statutory appropriations	118.1	46.9	71.2	151.8%
Total expenditure	7,043.6	6,700.7 *	342.9	5.1%
Budgetary surplus (deficit)	$ 41.1	$ (333.7)*	$374.8	

During the 1981-82 fiscal year, expenditure estimates were supplemented by special warrants totalling $621.1 million, for a total of $7,321.8 million. Of this amount, $3.8 million was required to meet liabilities recorded in the financial statements of the 1980-81 fiscal year leaving $7,318.0 million available for the 1981-82 fiscal year. A comparison of total actual expenditure with the $7,318.0 million shows that authorized funds remained unexpended in the amount of $274.4 million.

* Estimates of expenditure and budgetary deficit have been reduced by $2.5 million which was voted for investment purposes.

3.3.4 The following shows the changes in Net Assets (Surplus) of the General Revenue Fund during the years ended March 31, 1982 and 1981:

	1982	1981
	(Millions of Dollars)	
Net assets at beginning of year	$2,285.5	$2,697.1
Budgetary surplus (deficit)	41.1	(411.6)
Net assets (surplus) at end of year	$2,326.6	$2,285.5

The net assets (surplus) at the end of the year should be viewed in light of the recommendation contained in subsection 2.5.2 of this report.

3.3.5 The following are extracts from the notes to the financial statements of the General Revenue Fund relating to significant accounting policies and reporting practices:

(1) "The reporting entity is the General Revenue Fund. Activities of Provincial agencies and regulated funds are reported only to the extent of advances made from or repaid to the General Revenue Fund, contributions from the General Revenue Fund to cover expenses or operating deficits and repayments of contributions in excess of current requirements...." (Note 2(a))

(2) "Budgetary revenues are reported on an accrual basis except for net personal and corporate income taxes which are reported on a cash basis". (Note 2(b))

(3) "Pension costs are reported on a current contributions basis and no provision is made for actuarial estimates of additional annual costs." (Note 2(b))

(4) "No provision is made for accrued employee vacation entitlements." (Note 2(b))

(5) "Consistent with the reporting of capital acquisitions as expenditure, fixed assets are not reported." (Note 2(b))

(6) "No provision has been made in the financial statements for contingent liabilities resulting from litigation and guarantees." (Note 4)

Observations and recommendations in connection with the unfunded liabilities of pension plans are contained in subsection 2.5.2 of this report. Furthermore, recommendations in connection with the non-inclusion of costs relating to accommodation, furniture, fixtures and equipment in program delivery costs are contained in subsection 2.5.1.

3.3.6 A further matter to be considered with regard to the General Revenue Fund Net Assets balance is contained in the note relating to carrying value of the Province's investment in Pacific Western Airlines Ltd. This note, which appears in Volume I, Schedule 2.4 of the Public Accounts reads as follows:

> "The investment in Pacific Western Airlines Ltd., which represents 99.84% (1981 – 99.82%) of the outstanding voting shares, has not been adjusted for the Province's share of retained earnings. Pacific Western Airlines Ltd. reported earnings for the year ended December 31, 1981 of $17,926,000 (1980 – $12,236,000) and retained earnings at December 31, 1981 of $70,333,000 (1980 – $52,407,000)."

3.3.7 Income Tax Revenues

Provincial income tax revenues are reported in Volume I of the Public Accounts under the headings "Personal income tax, net" and "Corporate income tax, net". A note to the financial statements explains that income taxes are reported on a cash basis. This means that the figures in the Public Accounts represent cash received from taxpayers without adjusting, at the beginning and end of each fiscal year, for income taxes owed or prepaid to the Province.

Describing income tax revenue as 'net' indicates that it is reduced by various allowances, rebates and credits. These are commonly referred to as tax expenditures. The revenue statement of the Treasury Department in Volume II of the Public Accounts shows gross receipts of personal income taxes and corporate income taxes, together with the total cost of tax expenditures including administration fees allowed against each.

The desirability of budgeting and reporting the costs of tax expenditure programs is discussed in subsection 2.5.3 of this report. Unless tax expenditure program costs are reported separately, neither the Legislative Assembly nor the public can assess the impact of the programs in terms of cost. This was why in his last two Annual Reports to the Legislative Assembly, and in this report, the Auditor General recommended that tax revenues and tax expenditures be budgeted and reported separately.

Since the Public Accounts do not report the costs of significant tax expenditure programs separately, the information is provided in this Annual Report analysed by taxation years and fiscal years in which expenditures were deducted. It should be noted however, that although both Federal and Provincial legislation affect Alberta income tax payable, only the costs of Provincial incentives, which affect tax payable without changing taxable income, are reported since they are programs of the Alberta Legislature.

The rental investment tax credit available to corporations for 1981 and subsequent taxation years does not appear on the analyses because no corporation had been assessed this credit. A similar incentive for individuals (the rental investment incentive program) operated by the Department of Housing and Public Works reported expenditures of $210,259 during the fiscal year ended March 31, 1982.

As stated earlier, income tax revenues are reported on a cash received basis. Because of this, an income tax remission order for $7,897,139 approved during 1981-82 is not reported as a General Revenue Fund expenditure, though it is reported in the Statement of Remissions, Compromises and Write-offs in Volume II of the Public Accounts.

The Province has two methods of collecting income taxes:

— The first method is used to collect income taxes from individuals and from corporations with fiscal periods beginning before January 1, 1981.

Under this method the Government of Canada, as agent of the Province, collects for and on behalf of the Province net individual and corporate income taxes imposed under the Alberta Income Tax Act and remits amounts in respect thereof to the Province.

The tax collection agreement provides that for each taxation year, the Government of Canada shall pay instalments on account to the Province beginning on March 1 of the taxation year in question and ending in February of the next taxation year. These instalments on account are based on estimates of Provincial income tax assessments as calculated by the Government of Canada.

Fifteen months after the taxation year ends, the Government of Canada settles with the Province all taxes assessed, for the taxation year in question, on individuals three months prior to the settlement date and on corporations one month prior to the settlement date. Taxes assessed after the aforementioned cut-off dates are paid to the Province with the settlements for subsequent taxation years.

All costs, charges and expenses, including the cost of bad debts written off, incurred in the collection of taxes by the Government of Canada to administer the Alberta Income Tax Act are paid by the Government of Canada. In consideration of the collection of taxes by the Government of Canada, the Province allows the Government of Canada to retain any penalties, fines or other amounts awarded in judicial proceedings (except penalties imposed under section 27 of the Provincial Act) together with any interest that is payable by a taxpayer under the Provincial Act. The Government of Canada charges fees to the Province for administering the various tax credit, tax rebate and other tax reduction programs.

— The second method is used to collect income taxes under the Alberta Corporate Income Tax Act from corporations with fiscal periods beginning after December 31, 1980.

These corporations pay instalments on account to and file income tax returns with the Province. In 1980-81, only $41.7 million of a total of $643.5 million gross corporate income tax receipts were collected by this method. For 1981-82, the figures are $407.6 million and $685.2 million respectively. In 1982-83 and subsequent fiscal years, corporate income taxes will be collected directly by the Province, except for settlements with the Government of Canada for 1981 and prior taxation years.

Before January 1, 1981, all Provincial income taxes were collected by the Government of Canada and remitted to the Province. The change to collecting income taxes directly from corporations results in:

— receiving tax instalments on account earlier,

— receiving interest and penalties from corporations,

— receiving lower tax instalments on account with an offsetting reduction of royalty tax rebate instalments,

— incurring administrative expenses to operate the Provincial tax collection system, which in 1981-82 amounted to $7,412,950, and

— the possibility of incurring bad debts.

In addition, the Treasury Department will be better able to estimate annually corporate taxes assessable under the Alberta Corporate Income Tax Act. By so doing, it will be able to evaluate the effectiveness of its compliance and enforcement procedures, as well as give consideration to accounting for taxation revenues on an accrual basis.

3.3.8 The following are analyses, by taxation years, of individual and corporate income tax instalments received on account and assessments issued and the cost of related Provincial tax reduction programs and administration fees paid to the Government of Canada for the years ended March 31, 1979 to 1982:

INDIVIDUAL INCOME TAXES

	Taxation Year	Fiscal year received/paid 1978-79	1979-80	1980-81	1981-82
Income tax assessments/ instalments on account * (Note 1):	1976	$12,665,319	$ —	$ —	$ —
	1977	31,985,126	20,415,491	—	—
	1978	581,966,000*	56,001,921	24,371,531	—
	1979	55,672,000*	656,933,000*	78,975,403	30,614,149
	1980	—	66,388,000*	784,508,000*	135,941,668
	1981	—	—	83,184,000*	1,059,286,000*(Note 2)
	1982	—	—	—	118,092,000*(Note 2)
Share of unapplied taxes (Note 3)		4,595,942	3,714,778	6,276,684	25,118,694
Gross income tax receipts		686,884,387	803,453,190	977,315,618	1,369,052,511
Less:					
Renter assistance credits:	1976	369,613	—	—	—
	1977	21,316,461	1,407,960	—	—
	1978	—	23,131,121	602,064	—
	1979	—	—	29,723,542	951,324
	1980	—	—	—	32,591,557
		21,686,074	24,539,081	30,325,606	33,542,881
Royalty tax credits:	1976	948,698	—	—	—
	1977	3,307,668	1,081,903	—	—
	1978	—	3,605,558	1,671,378	—
	1979	—	—	5,437,307	2,206,760
	1980	—	—	—	7,856,373
		4,256,366	4,687,461	7,108,685	10,063,133
Royalty tax rebates:	1976	130,161	—	—	—
	1977	765,281	1,089,512	—	—
	1978	—	564,770	304,538	—
	1979	—	—	1,027,365	622,039
	1980	—	—	—	1,431,979
		895,442	1,654,282	1,331,903	2,054,018
Political contribution deductions (Note 4):	1978	—	233,634	8,916	—
	1979	—	—	511,768	9,243
	1980	—	—	—	225,100
		—	233,634	520,684	234,343
Total tax credits, rebates and deductions		26,837,882	31,114,458	39,286,878	45,894,375
Administration fees		268,379	311,145	392,869	458,944
Total deductions		27,106,261	31,425,603	39,679,747	46,353,319
Net income tax receipts		$659,778,126	$772,027,587	$937,635,871	$1,322,699,192

Notes:

1) Individual income tax assessments are reported net of Provincial foreign income tax deductions, Provincial selective tax reductions, penalties assessed under section 27 of the Alberta Income Tax Act and remissions of income taxes payable on Alberta social assistance payments and on benefits and allowances to employees in isolated posts.

2) Although income tax instalments were received on account for the 1981 and 1982 taxation years, there are no reductions for the related tax credits, rebates and other deductions as the accounts for these taxation years have yet to be settled with the Government of Canada.

3) Unapplied taxes are amounts deducted at source from employees that have not, because of the failure of such employees to file returns, been applied to taxes payable to different jurisdictions by individuals.

4) There are no comparative figures for political contribution deductions for some earlier years because the plan applies only to 1978 and subsequent taxation years.

CORPORATE INCOME TAXES

	Taxation Year	Fiscal year received/paid 1978-79	1979-80	1980-81	1981-82	
Income tax assessments/ instalments on account * (Note 1):	1975	$ (236,252)	$ —	$ —	$ —	
	1976	20,095,453	37,213	—	—	
	1977	93,042,301	40,963,499	183,559	—	
	1978	398,805,500*	(41,000,712)	52,293,992	1,673,724	
	1979	40,296,000*	405,926,000*	42,743,387	56,351,476	
	1980	—	41,872,000*	495,025,000*	107,344,511	
	1981	—	—	52,544,326*	455,532,051*	(Notes 2 & 3)
	1981	—	—	—	670,404	
	1982	—	—	7,313,204*	95,719,176*	(Notes 2 & 3)
	1983	—	—	—	912,883*	(Notes 2 & 3)
		552,003,002	447,798,000	650,103,468	718,204,225	
Allocated to Utility Companies Income Tax Rebates Fund under section 3 of the Utility Companies Income Tax Rebates Act (Note 4)		22,179,416	21,314,207	6,561,566	33,028,010	
Gross income tax receipts		529,823,586	426,483,793	643,541,902	685,176,215	
Less:						
Royalty tax credits:	1976	31,630,654	—	—	—	
	1977	76,920,389	15,432,124	9,491	—	
	1978	—	87,214,193	16,171,509	1,701,304	
	1979	—	—	91,995,359	16,788,125	
	1980	—	—	—	113,107,284	
	1981	—	—	—	396,861	
		108,551,043	102,646,317	108,176,359	131,993,574	
Small business deductions (Note 5):	1979	—	—	56,278,425	(109,166)	
	1980	—	—	—	70,654,257	
	1981	—	—	—	273,867	
		—	—	56,278,425	70,818,956	
Royalty tax rebates:	1976	36,062,231	—	—	—	
	1977	8,180,855	11,989,227	—	—	
	1978	74,409,500*	(19,715,271)	18,225,963	(331,303)	
	1979	8,332,000*	111,668,000*	(43,647,040)	16,256,603	
	1980	—	11,248,000*	68,752,000*	41,487,687	
	1981	—	—	832,000*	9,168,000*	(Note 3)
		126,984,586	115,189,956	44,162,923	66,580,987	
Political contribution deductions and tax credits (Note 5):	1978	—	29,727	4,900	75	
	1979	—	—	150,895	(61,363)	
	1980	—	—	—	77,914	
	1981	—	—	—	275	
		—	29,727	155,795	16,901	
Total tax credits, rebates and deductions		235,535,629	217,866,000	208,773,502	269,410,418	
Administration fees		50,000	50,000	50,000	50,000	
Total deductions		235,585,629	217,916,000	208,823,502	269,460,418	
Net income tax receipts		$294,237,957	$208,567,793	$434,718,400	$415,715,797	

Notes:

1) Corporate income tax assessments are reported net of royalty tax deductions where applicable, Provincial corporate capital gains refunds, Provincial foreign investment income tax deductions, penalties assessed under section 27 of the Alberta Income Tax Act and penalties and interest assessed under the Alberta Corporate Income Tax Act.

2) Instalments received on account for the 1981 taxation year include $310,294,051 (1980-81: $41,452,326) collected by the Province directly from corporations. All instalments received on account for the 1982 and 1983 taxation years were collected by the Province directly from corporations. Not all 1981 tax expenditures are assessed and recorded, and none are recorded for 1982 and 1983. These will be recorded as and when the taxpayers are assessed.

3) Collecting Provincial income taxes directly from corporations has changed the method of recording income tax instalments received on account and related royalty tax rebates. Under the Alberta Corporate Income Tax Act there are no royalty tax rebates. A royalty tax deduction from taxable income before applying the Alberta allocation factor is allowed instead. This has the same effect on corporate income tax payable to the Province. For 1981 and subsequent taxation years, this change has resulted in a reduction of reported royalty tax rebates and an offsetting reduction in recorded income tax instalments received on account. Royalty tax deductions, not separately shown above, allowed under the Alberta Corporate Income Tax Act reduced the taxes assessed for the 1981 taxation year by $957,065.

4) Allocations to the Utility Companies Income Tax Rebates Fund are Provincial income taxes paid or estimated to have been paid by utility companies, carrying on business in Alberta, on revenues earned on sales of electrical energy, gas or steam in the Province to the public. The utility companies have agreed with the Provincial Treasurer that all payments made to them will be distributed to persons who are their wholesale or retail customers in Alberta.

5) There are no comparative figures for small business deductions and political contribution deductions and tax credits for some earlier years because the plans apply only to the taxation years beginning with 1979 and 1978 respectively.

3.3.9 The following summary shows the main reasons for significant variations in revenue between the 1980-81 and 1981-82 fiscal years:

	Total Revenue		
	1981-82	1980-81	% Increase (Decrease)
	(Millions of Dollars)		
Non-renewable resource revenue:			
Non-renewable resource royalties — increase in royalties on crude oil, natural gas and natural gas by-products caused by price increases partially offset by decline in volume.	$4,376	$4,105	6.6
Sales of petroleum and natural gas rights — decrease due to decline in exploration activity.	557	759	(26.6)
	4,933	4,864	1.4
Allocation to Alberta Heritage Savings Trust Fund — increase in non-renewable resource revenue.	(1,464)	(1,443)	1.5
Allocation to Natural Gas Rebates Fund — the fund was established on January 1, 1981, by the Natural Gas Rebates Amendment Act 1980.	(86)	(38)	126.3

Net non-renewable resource revenue	3,383	3,383	—
Personal income taxes, net — increased income tax instalments from the Government of Canada mainly caused by growth in the Province's population and individual incomes. (But see also subsection 2.3.7 of this report).	1,323	938	41.0
Oil export charge — the Government of Canada agreed to pay an export charge on oil produced in and exported from Alberta after November 1, 1980. The revenue for 1981 was an estimate for the five months ended March 31, 1981. The 1982 revenue represents the export charge for the period from November 1, 1980 to March 31, 1982, less the 1981 estimate.	161	35	360.0
Canada Assistance Plan — increase in expenditures by the Department of Social Services and Community Health that are eligible for cost sharing.	239	155	54.2
Hospital insurance — increased contribution from the Federal Government under the Fiscal Arrangements Act caused by increases in both the population of Alberta and the gross national product.	261	205	27.3
Post secondary education — increased contributions from the Federal Government under the Fiscal Arrangements Act and previous legislation.	167	116	44.0
Interest — decrease in funds available for investment offset by increased income due to higher interest rates.	339	361	(6.1)
Alberta Liquor Control Board — although Alberta Liquor Control Board profits increased for the year ended December 31, 1981, monies were retained by the Board for capital expansion and reserves.	187	217	(13.8)
Pension funds — pension contributions are now accounted for separately in the 'Pension Fund' financial statements. In 1981-82, $229 million was received, an increase of $67 million. The increase is due to: (1) recording the employers' share ($37 million) for Alberta Public Service employees as Pension Fund receipts,	—	162	(100.0)

(2) recording receipts from two hospitals when joining the Fund ($8 million) and other increases in employers' contributions to the Local Authorities' pensions ($12 million),

(3) general increases in salaries subject to pension withholdings and employer contributions.

Miscellaneous revenue	1,025	1,006	1.9
Total revenue	$7,085	$6,578	7.7

3.3.10 The following summary shows the main reasons for the more significant expenditure variations (voted appropriations) between the 1980-81 and 1981-82 fiscal years:

	Total Expenditures		
	1981-82	1980-81	% Increase (Decrease)
	(Millions of Dollars)		
Advanced Education and Manpower – Assistance to higher and further educational institutions — 27.9% increase in operating grants to universities and public colleges: $21 million increase in grants to provincially administered institutions and $24 million increase in program support services.	$623	$501	24.4
Agriculture – Production assistance — $143 million for a beef cattle and sheep support program.	193	48	302.1
Education – Financial assistance to schools — 17.7% general increase to cover operating costs; $20 million increase in Provincial contributions to the School Foundation Program Fund; Additional $10 million to cover the increase in the number of pupils in the Province.	838	702	19.3
Energy and Natural Resources – Forest resources management — additional cost of fighting forest fires during the summer and fall of 1981.	124	78	58.6
Environment – Water resources management — increase in construction activity on the Dickson Dam.	116	54	114.8
Environment – Pollution prevention and control — $29 million increase in Municipal Sewage Treatment grants.	161	106	51.7

— $15 million increase in the Regional Utility program due to the Vegreville water line project. — $5 million due to a new phosphorous removal program.			
Environment – Land assembly — decrease reflects purchasing land for Restricted Development Corridors out of the Land Purchase Fund rather than the General Revenue Fund.	40	126	(68.2)
Hospitals and Medical Care – Financial assistance for active care — 22% increase in operating grants because of increased cost of operating active care hospitals and $31 million for manpower contract settlements and operating deficits of active care hospitals applicable to 1980-81.	831	651	27.7
Hospitals and Medical Care – Health care insurance — increased grant to cover the Health Care Insurance Fund deficit.	216	163	32.5
Hospitals and Medical Care – Financial assistance for long-term chronic care — 21.5% increase in operating grants because of increased cost of operating long-term chronic care hospitals and $6 million for manpower contract settlements and operating deficits of long-term chronic care hospitals applicable to 1980-81.	90	69	30.3
Housing and Public Works – Planning and acquisition of accommodation — increase in amount of space leased by the government and increase in rental rates on renewed leases.	117	82	42.8
Housing and Public Works – Alberta Housing Corporation – Housing for Albertans — increase in the amount of accommodation provided at government subsidized rates.	62	35	76.9
Housing and Public Works – Alberta Home Mortgage Corporation – Mortgage assistance — increase in volume of mortgage assistance through interest rate subsidies.	37	13	184.6
Municipal Affairs – Financial support for municipal programmes — $ 24 million increase in the Municipal Debenture Interest Rebate program	122	92	33.0

resulting from higher interest rates incurred by Municipalities borrowing on eligible debentures, and an increase of $6 million in Unconditional Assistance Grants to Municipalities.			
Recreation and Parks – Recreation development — increase in financial assistance provided by the Major Cultural Recreation Facility program and special grants for major sporting events.	92	37	149.6
Social Services and Community Health – Social allowance — $23 million (21%) increase in social allowance payments to employables and $12 million (44%) increase in payments to single parent families due to increased caseloads and increased income support levels for recipients.	218	171	27.1
Social Services and Community Health – Benefits and income support — $20 million (73%) increase in financial assistance to the severely handicapped and $23 million (24%) increase in supplementary benefits to senior citizens.	119	83	43.0
Social Services and Community Health – Child welfare services — $9 million (45%) increase in financial assistance to contracted residences, $7 million (61%) increase in support for treatment in government operated child care institutions and $6 million (61%) increase in financial assistance to community residences providing child care.	83	58	43.0
Social Services and Community Health – Community social and health services — $12 million (24%) increase in grants to local health units and city boards of health and $5 million (64%) increase in support to the day care operating allowance program.	97	75	28.8
Social Services and Community Health – Departmental support services — $12 million increase in operating costs of Social Service district offices due to increased caseloads.	67	47	42.6
Transportation – Construction and maintenance of highways. — major increases incurred expanding the primary highway system, rural/local highways, pavement rehabilitation and	589	412	43.0

financial assistance to municipalities for rural/local highways.			
Transportation – Urban transportation financial assistance. — increase in grants for arterial roads ($8 million) and major continuous corridors ($3 million) assistance and capital grants for public transit ($6 million)	155	133	16.8
Treasury – Public service pension policy — pension benefits and withdrawals are now accounted for in the 'Pension Fund' financial statements. In 1981-82, these expenditures amounted to $119 million. The increase is due mainly to increased benefits paid to a larger number of pensioners and to increased withdrawals of contributions and interest by employees leaving the public service.	—	99	(100.0)
Utilities and Telephones – Natural gas price protection for Albertans — decrease in cost, due to transfer of program funding from the General Revenue Fund to the Natural Gas Rebates Fund. During 1981-82 the Fund paid rebates of $95 million.	2	87	(97.6)
Miscellaneous	1,933	1,626	18.9
Total expenditure – voted appropriations	$6,925	$5,548	

3.3.11 The following expenditures and liabilities were incurred during the 1981-82 fiscal year without specific legislative and executive authority. In accordance with section 32(4) of the Financial Administration Act, however, these amounts will be charged against the supply votes for the 1982-83 fiscal year.

	Amount
Agriculture — Vote 2 – Production Assistance	$4,899,819
Government Services — Vote 5 – Public Affairs	807,051
Hospitals and Medical Care — Vote 1 – Departmental Support Services	133,683
Solicitor General — Vote 2 – Correctional Services	536,293
Transportation — Vote 7 – Surveys and Property Acquisition	48,308
	$6,425,154

3.4 ALBERTA HERITAGE SAVINGS TRUST FUND

3.4.1 The audited financial statements of the Alberta Heritage Savings Trust Fund (Heritage Fund) are included in Section 4 of Volume 1 of the Public Accounts of the Province of Alberta. The following is a comparative summary of the Statements of Income, Retained Earnings, Transfers and Fund Equity for the years ended March 31, 1982 and 1981, contained therein:

	1982	1981
	(Millions of Dollars)	
Income and Retained Earnings:		
Investment income, net	$1,009	$ 725
Administrative expenses	3	1
Net income for the year	1,006	724
Retained earnings at beginning of year	1,642	918
Retained earnings at end of year	2,648	1,642
Transfers from the General Revenue Fund of the Province of Alberta:		
Non-renewable resource revenue transfer for the year	1,434	1,444
Cumulative transfers at beginning of year	6,887	5,443
Cumulative transfers at end of year	8,321	6,887
Fund equity at end of year	$10,969	$8,529
Represented by:		
Net assets	$9,660	$7,568
Deemed assets	1,309	961
	$10,969	$8,529

3.4.2 Users of the financial statements might expect "Fund equity at end of year" to represent the net assets of the Heritage Fund at March 31, 1982. As explained in note 2 to the Heritage Fund's financial statements, however, that figure includes $1,309 million of Capital Project Division "investments". These "investments" are not assets of the Heritage Fund but, as required by section 6(8)(a) of the Alberta Heritage Savings Trust Fund Act, are deemed to be assets with a value equal to amounts expended.

In his Annual Report to the Legislative Assembly for 1978-79, the Auditor General observed that disclosing these expenditures as deemed assets creates potential for misunderstanding the underlying substance of the recorded assets of the Heritage Fund. Accordingly, he recommended that the Act be changed to enable this accounting practice to be discontinued. The Government rejected this suggestion on the grounds that the financial disclosure requirements of section 6(8)(a) of the Act represent public policy as established by statute.

3.4.3 On consolidation of the financial statements of the Province of Alberta, the accounting policies of the Heritage Fund are adjusted to conform to the accounting policies employed by the General Revenue Fund. This results in deemed assets being written off as expenditure and not reflected as assets in the consolidated balance sheet of the Province.

3.4.4 In February 1982, the Auditor General issued a special report on certain matters related to the Heritage Fund. That report contained five recommendations for strengthening the Fund's financial control and improving accountability to the Legislative Assembly.

The five recommendations and the Government's responses there to, the action taken and the Auditor General's comments thereon are contained in subsection 2.2 of this report.

4 WORK OF THE AUDIT OFFICE

4.1 THE AUDITOR GENERAL AS AUDITOR

4.1.1 The clientele of the Audit Office is prescribed by section 12 of the Auditor General Act. Section 12(a) of the Act appoints the Auditor General auditor of every department, regulated fund, revolving fund and Provincial agency. Section 12(b) of the Act enables the Auditor General, with the approval of the Select Standing Committee of the Legislative Assembly on Legislative Offices, to be appointed auditor of a Crown-controlled organization or any other organization or body.

The entities audited each year by the Audit Office are listed in the following paragraphs indicating the Legislative authority for the Auditor General's appointment.

4.1.2 The Public Accounts for the fiscal year ended March 31, 1982 contain the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund and the financial statements of the following Provincial agencies, revolving funds and regulated funds. The Auditor General is appointed auditor of these entities pursuant to section 12(a) of the Auditor General Act:

Advanced Education and Manpower:
- Students Finance Board

Agriculture:
- Agricultural Research Council of Alberta
- Alberta Agricultural Development Corporation
- Alberta Agricultural Research Trust
- Alberta Hail and Crop Insurance Corporation
- Irrigation Land Manager
- The Horned Cattle Purchases Act Trust Account
- Wheat Board Money Trust Account

Attorney General:
- Public Trustee
- The Alberta General Insurance Company

Culture:
- Culture Revolving Fund
- Glenbow-Alberta Institute
- The Alberta Art Foundation
- The Alberta Cultural Heritage Foundation
- The Alberta Foundation for the Performing Arts
- The Alberta Historical Resources Foundation
- The Government House Foundation

Economic Development:
- Alberta Motion Picture Development Corporation
- Alberta Terminals Ltd.

Education:
- School Book Branch
- School Foundation Program Fund
- Teachers' Retirement Fund

Energy and Natural Resources:
- Alberta Oil Sands Technology and Research Authority
- Alberta Petroleum Incentives Program Fund
- Alberta Petroleum Marketing Commission
- Forest Development Research Trust Fund
- Natural Gas Price Administration Act Fund
- Natural Gas Pricing Agreement Act Fund

Environment:
- Alberta Environmental Research Trust
- Environment Council of Alberta
- Surface Reclamation Fund
- The Alberta Educational Communications Corporation
- Water Resources Revolving Fund

Executive Council:
- Alberta Research Council
- Energy Resources Conservation Board
- The Workers' Compensation Board

Government Services:
- Government Services Revolving Fund

Hospitals and Medical Care:
- Edmonton Area Hospital Planning Council Fund
- Health Care Insurance Fund

Housing and Public Works:
- Alberta Home Mortgage Corporation
- Alberta Housing Corporation

Municipal Affairs:
- Alberta Planning Fund
- Improvement Districts' Trust Account
- Metis Settlements Trust Fund
- Special Areas Board

Recreation and Parks:
- Alberta Games Council
- The Recreation, Parks and Wildlife Foundation

Social Services and Community Health:
- The Alberta Alcoholism and Drug Abuse Commission

Solicitor General:
- Alberta Liquor Control Board
- Alberta Racing Commission
- Motor Vehicles Accident Claims Fund

Tourism and Small Business:
- Alberta Opportunity Company

Transportation:
- Alberta Resources Railway Corporation
- Transportation Revolving Fund

Treasury:
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Municipal Financing Corporation
- Consolidated Cash Investment Trust Fund
- General Trust Account
- Land Purchase Fund
- Municipal Land Loans Act
- Pension Fund
- Retirement Annuities Fund
- Treasury Branches Deposits Fund

Utilities and Telephones:
- Gas Alberta Operating Fund
- The Alberta Government Telephones Commission
- The Alberta Government Telephones Employees' Pension and Death Benefit Fund

In the opinion of the Auditor General, inclusion of the above audited financial statements in the Public Accounts of the Province satisfies the reporting requirements of section 77 of the Financial Administration Act.

4.1.3 Section 2(5) of the Financial Administration Act exempts most of the Act's application to the following entities. Accordingly, the financial statements of these entities are not included in the Public Accounts of the Province. The Auditor General is appointed auditor of these entities, which are the provincially owned universities, colleges, hospitals and related funds, pursuant to section 12(a) of the Auditor General Act:

Advanced Education and Manpower:

Colleges:

- Grande Prairie Regional College
- Grant MacEwan Community College
- Fairview College
- Keyano College
- Lakeland College
- Lethbridge Community College
- Medicine Hat College
- Mount Royal College
- Olds College
- Red Deer College
- The Banff Centre for Continuing Education

Universities:

- Athabasca University
- The University of Alberta
- The University of Calgary
- The University of Lethbridge
- University of Alberta – Chembiomed Ltd.
- Academic Pension Plan Fund of the University of Alberta

Hospitals and Medical Care:

- Alberta Heritage Foundation for Medical Research
- Edmonton Radiopharmaceutical Centre

Hospitals:

- Alberta Children's Provincial General Hospital
- Foothills Provincial General Hospital
- Glenrose Provincial General Hospital
- Provincial Cancer Hospitals
- University of Alberta Hospitals

Although the financial statements of these entities are excluded from the Public Accounts, section 2 (5.1) of the Financial Administration Act requires the Ministers responsible for the administration of the statutes under which they operate to lay a copy of these financial statements before the Legislative Assembly, except for the financial statements of the Alberta Heritage Foundation for Medical Research. Furthermore, the Provincial Treasurer has undertaken, as a convenience to regular users of the Public Accounts, to request that the appropriate ministers make available sufficient copies of the financial statements to enable them to be sent to all who request them. In this manner, an appropriate degree of accountability is achieved.

4.1.4 The financial statements of the following entities were also audited by the Auditor General pursuant to section 12(a) of the Auditor General Act and are not reproduced in the Public Accounts of the Province:

Advanced Education and Manpower:

- Provincial Laboratory of Public Health
- The Arctic Institute of North America

Agriculture:

- Lambco, a division of Alberta Agricultural Development Corporation

Culture:

Glenbow Foundation
Luxton Museum, a department of Glenbow-Alberta Institute
Luxton Museum Ltd.

Education:

Northland School Division No. 61

In most cases, the information contained in the above financial statements is also contained in other financial statements included in either the Public Accounts or in the financial statements of entities exempted from inclusion in Public Accounts by section 2(5) of the Financial Administration Act.

4.1.5 Pursuant to the provisions of section 12(b) of the Auditor General Act, the Select Standing Committee of the Legislative Assembly on Legislative Offices approved the Auditor General's appointment as auditor of the following entities:

Alberta Helium Limited
Canadian Energy Research Institute
Canadian Corporation for Studies in Religion
Canadian Institute of Resources Law
Coal Mining Research Centre
Computer Modelling Group
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Provincial General Hospital Staff Benevolent Fund
Glenrose Provincial General Hospital Staff Charities Fund
Hydrocarbon Research Centre
New Western Film & Television Foundation
Petroleum Recovery Institute
Sulphur Development Institute of Canada (SUDIC)
The Canadian Association of Youth Orchestras
The University of Alberta Foundation
University Hospitals Foundation
University of Alberta Hospitals Employees' Benevolent Fund
University of Alberta Hospitals Employees' Charity Trust
XV Olympic Winter Games Organizing Committee

The Auditor General acted as auditor of the above entities at the request of management. Since in these instances there is no direct accountability to the Legislative Assembly, it is not considered appropriate to reproduce the financial statements in this report; nor are they included in the Public Accounts of the Province.

4.1.6 In addition to the entities covered by section 12 of the Auditor General Act, the Auditor General is also auditor of fourteen irrigation districts operating under the authority of the Irrigation Act, Chapter I-11, Revised Statutes of Alberta 1980. These irrigation districts are not provincially owned but receive cost-sharing funding for capital improvements from the Province of Alberta, particularly from the Alberta Heritage Savings Trust Fund. The Auditor General is appointed auditor of these districts under section 43 of the Irrigation Act. The irrigation districts concerned are:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District

St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

These irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, the financial statements are not included in this report; nor are they included in the Public Accounts of the Province.

4.1.7 Under the terms of the Alberta Crown Agreement, the Auditor General, acting on behalf of the Minister of Energy and Natural Resources, post-audits, on a continuing basis the books and records of the Syncrude Project. The purpose of this monitoring activity is to give assurance that there has been compliance with the Alberta Crown Agreement and related accounting manual and to verify the determination of the deemed net profit or loss of the Project, thereby establishing the quantity of synthetic crude oil and other leased substances which may be taken by the Province of Alberta as royalty. This right is currently being exercised by the Office of the Auditor General pending transfer of this function to the Department of Energy and Natural Resources in due course.

The financial statements of Syncrude Canada Ltd., which operates the Syncrude Project, are audited by a firm of chartered accountants.

4.1.8 Crown-controlled organizations are defined by sub-section 1(b) of the Auditor General Act. Essentially, these companies qualify to be so designated because the Province of Alberta owns more than 50% but less than 100% of the issued voting shares. Crown-controlled organizations existing during the 1981-82 fiscal year were as follows:

Alberta Helium Limited
Pacific Western Airlines Ltd.
Westech Systems Ltd.

As explained in sub-section 4.1.5 of this report, the Auditor General is the auditor of Alberta Helium Limited. The financial statements of the other two Crown-controlled organizations are audited by firms of chartered accountants and the involvement of the Auditor General for the 1981-82 fiscal year was limited to the review function described in section 16(1) of the Auditor General Act. Since the information obtained during these reviews was deemed satisfactory, the Auditor General considered it unnecessary to exercise his powers under section 16(2) of the Act. In January 1983, Westech Systems Ltd., ceased to be a Crown controlled organization when it became only 50% owned by the Province.

4.1.9 The financial statements of the Alberta Energy Company, which was 50% owned by the Province of Alberta and therefore not a Crown-controlled organization, are neither audited by the Auditor General nor subject to section 16 of the Auditor General Act.

4.2 REPORTING RESPONSIBILITIES

4.2.1 The Auditor General reports to the Legislative Assembly under sections 18, 19 and 20 of the Auditor General Act, and to management under section 28 of the Act. In addition, specially requested reports are issued from time to time under section 17 of the Auditor General Act.

Section 18 Reports

4.2.2 In a report issued under section 18 of the Act, the Auditor General states whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and whether they are on a basis consistent with those of the preceding year. A report of this nature is similar to reports issued by auditors on financial statements of private sector organizations audited in accordance with generally accepted auditing standards.

The section 18 report for the 1981-82 fiscal year was dated December 10, 1982 and is reproduced in subsection 3.1.1 of this report. Similar reports were issued on the financial statements of all entities of which the Auditor General is auditor. These reports are annexed to the related financial statements, most of which are contained in the Public Accounts of the Province.

Section 19 Reports

4.2.3 In a report issued under section 19 of the Act (this report), the Auditor General reports to the Legislative Assembly on the work of the Audit Office, and various other matters specified in the Act if they were observed during the course of that work. There is virtually no limitation to what may be included in a section 19 report, however, since the Act empowers the Auditor General to call attention to any matter that he considers should be brought to the attention of the Legislative Assembly.

Section 20 Reports

4.2.4 In a report issued under section 20 of the Act, the Auditor General may report to the Legislative Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until presentation of his annual report issued under section 19 of the Act.

No reports were issued under section 20 of the Act in respect of the fiscal year ended March 31, 1982.

Section 28 Reports

4.2.5 Reports issued under section 28 of the Act are more commonly referred to as management letters. The purpose of management letters, as explained more fully in subsection 2.1.6 of this report, is to communicate system weaknesses and deficiencies to management together with other matters obeerved during audits.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. Copies of management letters are sent to the minister responsible for the audited entity and to the Secretary of the Treasury Board (except for Provincial agencies exempt under section 2(5) of the Financial Administration Act). Management letters are not made available to the Legislative Assembly or its select standing committees, nor are they required to be by the Auditor General Act.

4.2.6 At various times during the last two years, some members of the Legislative Assembly have suggested that Audit Office management letters should be tabled in the Legislative Assembly and/or made available to its standing committees. The Auditor General disagrees with these proposals and explained why on several occasions when appearing before the Select Standing Committees on Public Accounts and the Alberta Heritage Savings Trust Fund Act.

The Auditor General considers that tabling, or otherwise making public, his management letters is inappropriate for the following reasons:

— Since all audit observations and recommendations are discussed thoroughly with management during audits, management letters usually contain only abbreviated versions of audit findings. Accordingly, they are unsuitable for distribution to people unfamiliar with the matters reported.

— Management letters are normally considered to be part of an auditor's working papers. Section 27 of the Auditor General Act states that "Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly."

— Treating management letters as confidential is analogous to the situation normally found in the private sector. Private sector auditors of public companies, although appointed by the shareholders, issue management letters to the board of directors of the companies at the conclusion of audits. In the same way that the Auditor General's management letters are not sent to the Legislative Assembly, private sector auditors' management letters are not distributed to shareholders, nor in most jurisdictions are the shareholders entitled to see them. Only in extreme circumstances would a private sector auditor consider it necessary to communicate audit observations and recommendations to shareholders. In this context, the government and its administrators can be considered the equivalent of the board of directors, whereas the Legislative Assembly and its standing committees are the equivalent of the shareholders' representatives.

— Submitting management letters, and responses thereto, to public scrutiny can limit an auditor's ability to operate effectively. When a system deficiency is revealed by an audit, it is often a matter of opinion as to whether a weakness exists, how significant it is, or what is the best way to correct it. Sometimes a series of letters and responses occur before agreement is reached. Making these communications public would unduly hamper this 'negotiating' process and limit the Auditor General's ability to resolve problems and effect change.

— Tabling all management letters in the Legislative Assembly would result in Members receiving much insignificant as well as potentially misleading information. Most observations and recommendations included in management letters are not sufficiently important to warrant bringing to the attention of the Legislative Assembly. The Legislature recognizes this in the Auditor General Act by giving the Auditor General discretion concerning what to report to the Legislative Assembly. If management letters were tabled, the Auditor General's legislatively approved discretion would be rendered redundant.

— If management letters were tabled in the Legislative Assembly, the legal restriction on what the Auditor General could include in them would severely limit their usefulness as devices for communicating audit concerns to management. In the exercise of its duties, the Audit Office has access to all government records including taxation records, health and welfare records and correspondence with private citizens, etc. The rules of professional conduct, however, state that an auditor has a duty of confidence in respect of the affairs of those he audits and shall not disclose, without proper authority, information obtained in the course of his duties. The applicability of this rule to the Auditor General is confirmed by section 15 of the Auditor General Act. This section states that the Auditor General holds the confidential information he receives under the same disclosure restrictions that pertained to the person from whom it was received. This complies with the widely held view that a legislative auditor must not be used as a means of obtaining information from the government that would otherwise be unavailable. If the contents of management letters were restricted to information already available to the public, they could not satisfy the purpose for which they are intended.

Section 17 Reports

4.2.7 Under section 17 of the Auditor General Act, the Legislative Assembly and the Executive Council may ask the Auditor General to perform special duties. Whether or not those duties result in reports, and to whom the reports are issued, depends on the terms of the request.

During the 1981-82 fiscal year, the Auditor General received two requests to perform special duties pursuant to section 17 of the Auditor General Act:

(1) Theatre 3

In June 1981, following a request for a "government audit" by the Theatre's Board of Directors, the Minister of Culture (on behalf of the Executive Council) asked the Auditor General to accept the appointment of auditor of Theatre 3.

The Theatre was a non-profit making organization incorporated under the Societies Act. It received funding in the form of grants from the provincial and other levels of government, as well as from public subscriptions. The Board of Directors' request for a "government audit" was prompted by Theatre 3's serious financial situation and its association with its ex-president, who was under investigation by the Law Society of Alberta and the Royal Canadian Mounted Police.

The Auditor General's appointment as auditor of Theatre 3 was temporary, and the Minister of Culture's formal request was for him to:

— prepare and express an opinion on Theatre 3's financial statements for the eleven month period ended May 31, 1981.

— report on the use of grant monies paid to Theatre 3 by the Province of Alberta.

— report on the conduct of Theatre 3's financial management and any other matters arising from the audit.

The Auditor General's opinion on the financial statements of Theatre 3 was issued on July 16, 1981. In addition, management letters covering matters revealed by the audit were issued to the Theatre's Pro-tem President and the Minister of Culture on July 22, 1981.

(2) Alberta Heritage Savings Trust Fund Special Report

In December 1981, the President of the Executive Council asked the Auditor General to issue a special report on certain matters related to the Alberta Heritage Savings Trust Fund. The request followed questions raised in the Legislative Assembly and its standing committees concerning the Fund's administration and investment losses during the previous three years.

The Auditor General's special report was presented to the Speaker of the Legislative Assembly, and made public, on February 25, 1982.

The main conclusions contained in the special report were that throughout the life of the Alberta Heritage Savings Trust Fund:

— no malfeasance, including fraud or collusion, had occurred relating to marketable securities owned by the Fund;

— satisfactory action was taken by the Government respecting audit observations and recommendations made pursuant to the Auditor General Act in connection with marketable securities owned by the Fund;

— marketable securities owned by the Fund were adequately safeguarded and accounted for.

In addition, the special report dealt with a number of matters that were discussed publicly during the months prior to the Executive Council's request. Chief among these were contentions that $60 million was missing from the Fund, that the Fund was mismanaged, and that the Fund's accountability to the Legislative Assembly was inadequate.

The special report also contained five recommendations for improving the accountability of the Alberta Heritage Savings Trust Fund. These five recommendations and the rationale therefor, were repeated in the Auditor General's Annual Report for 1980-81 which was issued in March 1982. The five recommendations and the Government's responses are contained in subsection 2.2 of this report.

Audit Committee

4.2.8 Reports under sections 19 and 20 of the Auditor General Act are presented to the Chairman of the Select Standing Committee of the Legislative Assembly on Legislative Offices. He tables

them in the Legislative Assembly. Section 21 of the Act, however, establishes an Audit Committee which reviews reports under sections 19 and 20 of the Act before they are presented to the Chairman of the Select Standing Committee. The following members were appointed to the Audit Committee by Order in Council 747/79 dated August 1, 1979:

Mr. Haughton G. Thomson, F.C.A.
Retired Partner
Deloitte Haskins & Sells, Chartered Accountants
Edmonton

Mr. Robert Colborne
President
Pacific Western Transportation Limited
Calgary

His Honour Clare L. Liden
Assistant Chief Judge
Provincial Court of Alberta

Mr. Robert A. McLaughlin
Retired Systems Analyst
Edmonton

Honourable Louis D. Hyndman, Q.C.
Provincial Treasurer of Alberta

The Auditor General appreciates the helpful and constructive contributions of the Audit Committee during the review stages of the Annual Report for the 1981-82 fiscal year.

The Auditor General acknowledges with regret the passing of Mr. John M. Rooney, F.C.A. who served on the Audit Committee from August 1979 until his death in January 1983. His presence on the Audit Committee and in the auditing profession will be sadly missed.

4.3 AUDIT ACTIVITIES AND RESPONSIBILITIES

Role of the Legislative Auditor

4.3.1 Accountability has been described as a fundamental prerequisite to preventing the abuse of power in a democratic system of government. As such, the importance of accountability cannot be over emphasized. The function of a legislative auditor is to report on the government's stewardship of public funds and resources, thereby improving the fidelity of the accountability process.

4.3.2 The role of a legislative auditor is best illustrated by describing how that role complements the accountability process. The Government presents its annual revenue and expenditure budgets (estimates) for debate in the Legislative Assembly. Once the estimates are formally approved by the Legislature, the government and its administrators are responsible for their implementation. In this regard, the Legislature delegates authority to the government to ensure that collections of public funds are effected in accordance with the various statutes of the Legislature, that public funds are disbursed for the purposes for which they were authorized, that resources are managed in an economic and efficient manner and that, where appropriate, the effectiveness of government programs is measured.

Together with this authority, however, goes a responsibility for reporting back to the Legislature on how the public funds and resources were ultimately administered. This reporting process is termed accountability and is the basic method used by the Legislature to control the public purse.

4.3.3 Most accountability information provided to the Legislature is prepared by the government and its administrators and tabled in the Legislative Assembly. In Alberta, it is the responsibility of the Auditor General to examine and express an independent and objective opinion on appropriate parts of that accountability information.

The principal accountability information of a financial nature tabled in the Legislative Assembly is the annual Public Accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer. Each set of financial statements contained in the Public Accounts includes a report by the Auditor General as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the entity concerned, in accordance with a disclosed basis of accounting and whether they are presented on a basis consistent with that of the preceding period. Because of his independent status and his position as an officer of the Legislature, the Auditor General's opinions add credibility to the accountability information contained in the Public Accounts.

4.3.4 Accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the members of the Legislature in conducting an in-depth examination of the government's management and control of public resources. Here again, the Auditor General impacts the accountability process by the issuance of an annual report (this report) which may be used as a guide by the Select Standing Committee in its review of the Public Accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.

Auditing Standards

4.3.5 The Auditor General Act prescribes the reporting responsibilities of the Auditor General. It also describes certain administrative duties and procedures. However, the Act does not prescribe how the Auditor General or his Office should function, or what auditing standards should be adhered to in discharging his reporting responsibilities.

In the opinion of the Auditor General, the nature of his appointment and the spirit of the Act place upon him an implicit responsibility to ensure that, as a minimum, the work of the Audit Office adheres to contemporary auditing standards and methodologies used by private sector chartered accountants.

4.3.6 The Canadian Institute of Chartered Accountants (CICA) develops and promulgates recommendations which constitute "generally accepted auditing standards". These standards, which are published in the CICA Handbook, are binding on chartered accountants engaged in auditing the financial statements of profit oriented enterprises. Although government institutions do not fall within the definition of profit oriented enterprises, generally accepted auditing standards are adhered to by the Audit Office in the performance of its duties.

Section 15 of the Auditor General Act entitles the Auditor General at all reasonable times, to the information, reports, records, explanations and access to electronic data processing equipment he deems appropriate in the circumstances. Accordingly, it provides for the acquisition of such sufficient appropriate audit evidence which is, in the Auditor General's opinion, necessary to afford a reasonable basis to support the contents of his reports.

4.3.7 Since it is generally acknowledged that some people have an imperfect understanding of what constitutes an audit for the purposes of expressing an opinion on financial statements (a financial audit), it is considered appropriate to elaborate at this juncture on certain limitations in the auditing process.

It is accepted that in an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. When conducting an audit in accordance with generally accepted auditing standards, a financial auditor seeks reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported. When planning his examination, the auditor has the responsibility, within the inherent limitations of the auditing process, to consider the risk of fraud and error and to be alert for circumstances which might cause him to suspect their existence. If his suspicions are aroused at any time, the auditor must perform additional procedures to confirm or dispel those suspicions. Beyond that, the auditor has no separate or additional responsibility to detect fraud and error.

Accordingly, it must be realized that an audit performed in compliance with generally accepted auditing standards may not detect, and is not primarily designed to detect, every instance of fraud or error. The inherent limitations in the audit process are virtually unavoidable. An auditor would not have the resources to examine the circumstances behind and the support for every transaction recorded. Even if he had, he could not be sure that there were no unrecorded transactions. Furthermore, collusion between auditee personnel and outside parties, or among management or employees could result in apparently genuine but falsified transactions and documents being accepted by the auditor.

4.3.8 In March 1982, the Institute of Chartered Accountants of Alberta, as part of its mandatory practice review program, reviewed the operating procedures of the Audit Office. At the conclusion of that review, the Practice Review Committee of the Institute issued an opinion that the Audit Office:

— complies with generally accepted accounting principles and generally accepted auditing standards,

— complies with the standards of practice as set out in the Rules of Professional Conduct of the Institute, and

— is maintained at a sufficiently high standard having regard to generally accepted standards in the practice of the profession.

Accounting Principles

4.3.9 Financial statements may not be meaningful unless people who use them are aware of the accounting principles and disclosure standards employed in their preparation. Extensive and ongoing research by the CICA has resulted in the establishment of "generally accepted accounting principles". These principles are promulgated in the CICA Handbook as the recording and disclosure standards to be used by profit oriented enterprises. Government entities are not profit oriented enterprises in the CICA context.

4.3.10 In 1980, the CICA published a research study entitled Financial Reporting by Governments. This document was the result of a five year study to catalogue existing legislative accounting and reporting policies in Canada and to review the underlying objectives and concepts. The Auditor General was a member of the Study Group which produced the research study and the Assistant Auditor General (Resources and Administration Division) also served on one of the Group's task forces.

4.3.11 The research study, after calling attention to the wide diversity of accounting principles employed in the public sector in Canada, recommended that steps be taken to encourage greater standardization of financial reporting practices in the public sector. However, the situation at this time is that generally accepted accounting principles for governments do not exist, though in September 1981, the newly organized Public Sector Accounting and Auditing Committee of the CICA began addressing the various issues involved. This Committee, to which the Auditor General was appointed in September 1982, has commenced the task of formulating recommendations for both auditing and accounting in the public sector which it is anticipated will in due course become "generally accepted". Meanwhile, in the interests of fair and consistent presentation, financial statements submitted to the Legislative Assembly are prepared either in accordance with generally accepted accounting principles, as promulgated for the private sector in the CICA Handbook, or alternatively, in accordance with an appropriate disclosed basis of accounting.

4.3.12 For some government entities, deviations from generally accepted accounting principles are unavoidable. This is logical since what is appropriate to a profit oriented enterprise may not be appropriate to a government entity. In these situations, an alternative basis of accounting is adopted and explained.

When an appropriate disclosed basis of accounting is used, each significant departure from generally accepted accounting principles is included in a note to the financial statements of the entity concerned headed "Significant Accounting Policies and Reporting Practices". This note states that the financial statements are prepared in accordance with generally accepted accounting principles with certain exceptions. The accounting policies or practices employed which give rise to these exceptions are then explained in the note.

4.3.13 This form of presentation has been adopted for all financial statements other than those of the Province of Alberta Consolidated and the General Revenue Fund where the exceptions to generally accepted accounting principles were so numerous and significant that it was considered appropriate to omit reference to generally accepted accounting principles. Nevertheless the notes to the Province of Alberta Consolidated and General Revenue Fund financial statements headed "Significant Accounting Policies and Reporting Practices" explain the basis of accounting used.

The Audit Office exercises professional judgement in determining the suitability of employing accounting policies and practices at variance with generally accepted accounting principles. In all financial statements prepared as at March 31, 1982, or such other accounting periods ended within the year ended March 31, 1982, the disclosed departures from generally accepted accounting principles are not considered by the Audit Office to be inappropriate in the circumstances. However, the reader's attention is drawn to the recommendations contained in subsection 2.5 of this report relating to certain accounting policies of general application.

Audit Strategy

4.3.14 Generally accepted auditing standards apply to audits performed to report on the fairness of presentation of the financial statements. By performing such audits for the Province's departments, funds and agencies every year, the Audit Office satisfies the requirements of section 18 of the Auditor General Act.

Section 19 of the Act, however, allows the Audit Office to report on other matters, such as non-compliance with legislation, inadequately safeguarded public assets and deficiencies in internal control systems.

4.3.15 These two sections of the Act form the basis for the Auditor General's two main objectives which are:

(1) to audit the annual financial statements of all departments, funds and Provincial agencies in accordance with generally accepted auditing standards, and

(2) to provide assurance or otherwise to the Legislative Assembly that legislation is being complied with, that public assets are being safeguarded and that internal control systems are adequate. This audit work is performed in accordance with the general and examination standards of generally accepted auditing standards.

4.3.16 Although section 18 of the Act requires attest audits for all Provincial entities every year, the Audit Office is not required to examine every year, every area, circumstance or system which could give rise to an observation reportable under section 19. Since annual attest audits consume the majority of the Audit Office's resources, the Auditor General has adopted an overall audit strategy which augments annual attest audits with additional procedures on an annual, cyclical or as required basis. These audit augmentations relate mainly to systems, and the extent and frequency of the additional audit procedures depend on the nature, objectives, complexities and size of the systems and the value and volume of transactions processed.

4.3.17 For example, if the Audit Office decides to rely on the controls in a financial accounting system for the purpose of supporting its attest audit opinion, the key controls in the system are evaluated during annual attest audits. This evaluation includes testing the operation of the key controls.

However, if the Audit Office decides against relying on the controls in a significant financial accounting system, it does not test the operation of those controls annually. Instead, it reviews the design of the system each year and evaluates the consequences of any deficiencies detected.This enables the Auditor General to report design deficiencies to management annually and, where appropriate, to include them in his Annual Reports to the Legislative Assembly.

If the operation of key controls in a significant financial accounting system is not tested annually, it is tested rotationally.

4.3.18 Another way in which annual attest audit activity is augmented is by Management Control Systems (MCS) audits. The purpose of MCS auditing is to help management improve systems to ensure economy and efficiency and systems to measure and report on program effectiveness. In this regard, MCS audits are not designed to examine Cabinet decisions and Government policies; the auditor's duties begin after policy is set and published. It should be noted that MCS audits are currently performed on only a few systems each year.

4.3.19 The overall audit strategy is designed to address the Auditor General's aforementioned objectives using a combination of attest audits, systems auditing augmentations, MCS audits, and such other auditing procedures as testing for legislative compliance, special investigations, review of accountability information and concurrent or other preventive auditing.

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.4.1 To facilitate achieving its responsibilities and objectives, the Audit Office is divided into four operating divisions:

(1) General Audit Division

(2) Departmental Audit Division

(3) Systems Audit Division

(4) Resources and Administration Division

Each division is headed by an Assistant Auditor General, who, together with the Auditor General, collectively comprise the Audit Office Management Committee.

4.4.2 The General Audit Division is primarily responsible for audits of all Provincial agencies, regulated funds and revolving funds. It is also responsible for audits of other organizations of which the Auditor General is auditor either by virtue of being appointed under other statutes or as authorized under subsection 12(b) of the Auditor General Act.

The main function of this division is the performance of annual audits culminating in the expression of an auditor's opinion on financial statements prepared in accordance with generally accepted accounting principles or other disclosed bases of accounting. The division is also responsible for audits designed to compliance test and report on significant accounting and management control systems, including those relating to economy, efficiency and effectiveness, administered by the entities referred to in the previous paragraph.

During the year, the Assistant Auditor General (General Audit Division) served as a member of the Auditing Standards Committee of the CICA.

4.4.3 The Departmental Audit Division is primarily responsible for audits of all Government departments, monitoring the disbursement control function of the Office of the Controller and obtaining sufficient appropriate audit evidence to support the Auditor General's reports on the financial statements of the Province and the General Revenue Fund. Audit approaches employed are dependent upon the size and complexity of the individual departments but typically involve a combination of concurrent and post-auditing techniques.

The division is also responsible for audits designed to compliance test and report on significant accounting and management control systems, including those relating to economy, efficiency and effectiveness, administered by Government departments.

The division has developed a simulation system to operate on the Audit Office's own computer. This system is designed to simulate certain elements of the Government's main expenditure system by processing all transactions through the Audit Office's system and comparing the simulated results obtained with output from the Government's system. This activity significantly enhances the audit of the main expenditure system by providing early warning when material changes have occurred which effect the output of the system.

4.4.4 The Systems Audit Division is divided into three sections:

— Systems Development
— EDP Attest Audit
— Management Control Systems (MCS) Audit

The Systems Development section is responsible for developing computer assisted audit capabilities for use by all audit staff as well as administrative systems employed within the Audit Office. These systems are developed and operated with the aid of the Audit Office's computer, thereby enhancing the efficiency and effectiveness of the audit function. The use of this independent computing resource reduces significantly the risk of outside interference in the audit process.

The EDP Attest and MCS Audit sections are responsible for formulating, developing and promulgating the EDP and MCS audit policies and practices employed by the Audit Office. These sections are also responsible for providing assistance to other Divisions of the Audit Office in the application and use of such policies and practices.

In the interests of increased audit efficiency, the Division is currently researching and developing a number of enhanced computer assisted audit capabilities. While hosting a recent meeting of the CICA Computer Advisory Sub-Committee, the Audit Office was provided with an opportunity to explain and discuss its views on the future use of computers in auditing. As a result of this meeting, several national CA practices have expressed an interest in discussing the development of such capabilities with the Audit Office.

4.4.5 The Resources and Administration Division is responsible for the efficient operation of the Audit Office. It is responsible for ensuring that Audit Office Management Committee decisions and directives are properly implemented, for the personnel function including selecting and hiring staff, and for co-ordinating the budgetary and accounting functions. The Division is responsible for quality control including content, format and presentation of all audit reports, financial statements, management letters and other output of the Audit Office. This includes monitoring for adherence with established policies and standards and maintenance of the Audit Office Staff Manual.

The Division is also responsible for maintaining the time recording and audit billing system, professional research and development, the establishment of professional practice standards and in-house peer review assignments.

4.4.6 The Audit Office has continued to utilize the services of private sector chartered accountants. These firms act as agents of the Auditor General under the provisions of section 10 of the Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1982 were as follows:

Addison Krull
Arthur Andersen & Co.
Bailey Foulkes-Jones Lundell
Bevan, Hutch and Hagen
Campbell Sharp
Carpenter & Company
Clarkson Gordon
Colleaux & Mills
Coopers & Lybrand
Deloitte Haskins & Sells
Hudson & Company
Johnston, Morrison, Hunter & Co.
MacKay & Partners
Matthew Craig & Watts
Peat, Marwick, Mitchell & Co.
Price Waterhouse
Quilliam, Stuart & Company
Thorne Riddell
Touche Ross & Co.
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda & Dorchak

4.4.7 The audited financial statements of the Office of the Auditor General are reproduced in section 25 of Volume II of the Public Accounts 1981-82 in accordance with section 30(4) of the Auditor General Act.

5.0 TABULATION OF RECOMMENDATIONS

5.1 Recommendations appearing throughout this report are reproduced in this section. Each recommendation is serially numbered and cross referenced to the sub-section in which it appears, so that the reader may readily determine the context in which the recommendation is made. Where a recommendation was contained in a previous year's report, the fiscal year covered by the report and the previous recommendation number is shown above and to the right of each recommendation.

1. (Section 2.2.4) *(1980-81: No. 4)*

It is recommended that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparisons of the performance of the Alberta Heritage Savings Trust Fund's section 10 investments with the performance of similar investment portfolios. This comparative performance information would complement the rate of return and yield on investments information now published in the Fund's annual reports. Furthermore, consideration could be given to making both types of performance information available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act.

2. (Section 2.2.5) *(1980-81: No. 5c)*

It is recommended that the annual financial statements of the Alberta Heritage Savings Trust Fund together with the report of the Auditor General thereon, be subject to review each year by the Audit Committee established pursuant to section 21 of the Auditor General Act before the Trust Fund's annual report is published.

3. (Section 2.3.1)

It is recommended that consideration be given to amending the Alberta Corporate Income Tax Act to allow the Provincial Treasurer discretion, in special circumstances, to refund income tax instalments received.

4. (Section 2.3.2) *(1980-81: No. 8)*

It is recommended that provision be made in legislation giving the Auditor General access rights, similar to those of the Department of Energy and Natural Resources, to the appropriate records of organizations liable to pay royalties, subject to the limitation that such access is for the sole purpose of joining, at his discretion, any Departmental audit in progress. This will enable him to evaluate the auditing performed by the Mineral Revenues Division Audit Section.

5. (Section 2.3.3)

It is recommended that the Associate Deputy Minister of Social Services and Community Health direct the Department's expenditure and accounting officers to exercise more care in adhering to legislative requirements respecting the receipt of goods and services and payment therefor.

6. (Section 2.3.4) *(1980-81: No. 12)*

It is recommended that the Department of Social Services and Community Health strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:

— procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date.

— procedures to ensure prompt preparation and processing of data decision sheets.

— procedures to follow-up and recover social allowance overpayments.

7. (Section 2.3.5) *(1980-81: No. 9)*

It is recommended that the Department of the Environment continue with efforts to eliminate the deficiencies in its land acquisition and administration procedures and documentation.

8. (Section 2.3.5)

(1980-81: No. 10)

It is recommended that in view of the nature of transactions effected by the Land Assembly Division of the Department of the Environment, arrangements be made to ensure that appropriate legal advice is available when needed.

9. (Section 2.3.6)

It is recommended that the Treasury Department consider seeking amendments to the various acts or regulations, where appropriate, to provide for the cessation of employers' contributions when employees' contributions cease or comply with existing provisions of the acts and regulations as they relate to employers' contributions.

10. (Section 2.3.7)

(1978-79: No. 13)

It is recommended that, in view of the large and increasing volume (and value) of fixed assets administered by the Provincial Government, improvements be made to many of the systems currently in place to ensure adequate control and safeguards. These systems should incorporate the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration, the most important of which are:

- *An accurate and timely record of assets under the entity's custodianship containing a description of each asset showing its location, original cost or assigned value, acquisition date and disposal date.*
- *A program of physical verifications to be taken periodically and reconciled to the records. The reconciliations and physical counts should be performed by independent persons.*
- *Proper physical safeguards to prevent damage or misappropriations of fixed assets.*

11. (Section 2.3.7)

(1978-79: No. 15)

It is recommended that all Provincial agencies and regulated funds which are not currently subject to the Treasury Department's Manual of Financial Administration, excepting those which have already done so, design, implement and document procedures to adequately record, account for and safeguard fixed assets under their custodianship. The principles contained in section 9.5 of the Treasury Department's Manual could be used as a guide in designing such procedures.

12. (Section 2.3.8)

It is recommended that The Government House Foundation establish procedures requiring the ownership of art works to be checked before they are sold or otherwise disposed of. In addition, year-end and periodic inventory verifications should include timely reconciliations of art works with the record of art works owned.

13. (Section 2.3.9)

It is recommended that consideration be given to amending the Alberta Health Care Insurance Act to authorize the Health Care Insurance Fund to make recoverable payments to Alberta hospitals pursuant to reciprocal agreements with other Canadian provinces and territories.

14. (Section 2.3.9)

It is recommended that consideration be given to amending the Alberta Health Care Insurance Act to authorize the Health Care Insurance Fund to make recoverable payments to physicians providing services to the Department of Social Services and Community Health.

15. (Section 2.3.9)

It is recommended that the policy be clarified regarding funding sources for payments for basic health services and hospital charges on behalf of injured workers coming under the Workers' Compensation Act. Legislation should then be amended to provide appropriate authority.

16. (Section 2.3.10)

It is recommended that the transactions entered into by the Land Purchase Fund during the 1981-82 fiscal year which were ultra vires the Government Land Purchases Act, namely:

— borrowing other than by way of advances from the General Revenue Fund, and

— pledging land held by the Fund as security therefor,

be regularized as follows:

(a) the loan be repaid in full, or,

(b) if the mortgagee is unwilling to retire the loan:

(i) a Special Warrant be obtained to provide funds from which the Land Purchase Fund may be reimbursed for costs pertaining to the mortgaged land;

(ii) the Land Purchase Fund be reimbursed for the costs pertaining to the mortgaged land, thereby transferring the land and mortgage to the General Revenue Fund pursuant to section 7(1) of the Government Land Purchases Act.

(iii) if it is necessary, an Order in Council be obtained under section 7(3) of the Government Land Purchases Act;

(iv) an Order in Council be obtained pursuant to section 61(1) of the Financial Administration Act authorizing the borrowing under the mortgage.

If it is likely that in future, the Provincial Treasurer will wish the Land Purchase Fund to acquire land with mortgages attached, consideration should be given to amending the Government Land Purchases Act.

17. (Section 2.3.11)

It is recommended that consideration be given to amending the Legislative Assembly Act to provide specific authority for the payment of Members' expenses incurred in travelling between their constituencies and the Legislature, and for the payment of communications allowances and any other similar approved expenditures which may be of benefit to individual Members.

18. (Section 2.3.12)

It is recommended that management of all departments and Provincial agencies regularly review and, where necessary, strengthen their security arrangements for safeguarding public monies against theft, particularly during normal working hours and when such monies are in transit.

19. (Section 2.3.13)

It is recommended that the Provincial Treasurer:

— estimate annually, either independently or in conjunction with the Department of National Revenue – Taxation, the income taxes assessable under the Alberta Income Tax Act.

— estimate annually how much income tax it is reasonable to expect will not be assessed assuming that the Department of National Revenue – Taxation employs adequate compliance and enforcement procedures.

— require each year, prompt remittances to the Province of the difference between these two estimates, or explanations for any significant variances.

20. (Section 2.4.1)

It is recommended that the Department of Energy and Natural Resources develop a new system to record, monitor and control royalty revenues from natural gas and natural gas by-products. Meanwhile, the Department should continue to bring up to date the verification of its existing data.

21. (Section 2.4.1)

It is recommended that before the Department of Energy and Natural Resources develop a new system to monitor and control royalty revenues from natural gas and natural gas by-

products, consideration be given by the Government to seeking a more efficient and less complex way of calculating, verifying and collecting gas royalties. In this regard, input should continue to be obtained from the gas industry and all Government entities involved in monitoring the production, processing and selling of natural gas and natural gas by-products.

22. (Section 2.4.2)

It is recommended that the Department of Hospitals and Medical Care strengthen its procedures to avoid duplicating operating grants to hospitals.

23. (Section 2.4.3)

It is recommended that the Department of the Solicitor General ensure that adequate accounting records and financial control systems are established when new correctional or other institutions are opened. This should include:

— developing administrative manuals and training staff in their use, and

— providing assistance and supervision during the early months of operation.

24. (Section 2.4.4)

It is recommended that the Office of the Controller, as part of its ongoing review of compliance with Treasury Board Directive 07/81 procedures, review the EDP development plans of departments and Provincial agencies to determine whether:

— the plans describe in appropriate detail the proposed development and implementation activities;

— evidence is available to support the rationale behind the plans;

— senior managers in departments and Provincial agencies recognize their responsibilities respecting the plans, and are appropriately involved in both their preparation and execution.

25. (Section 2.4.5)

(1980-81: No. 14)

It is recommended that, where necessary and appropriate, Government departments establish procedures to ensure that annual expenditures do not exceed authorized limits. Furthermore, the Office of the Controller and the Budget Bureau should institute procedures to ensure that Government departments comply with Treasury Board Directives relating to expenditure controls.

26. (Section 2.4.5)

It is recommended that the Treasury Department and departments responsible for administering revolving funds establish procedures to prevent advances from the Provincial Treasurer to the revolving funds from exceeding statutory limits.

27. (Section 2.4.6)

(1979-80: No. 17)

It is recommended that the Department of Hospitals and Medical Care strengthen its control over the payment of per diem grants to nursing homes under the Financial Assistance for Supervised Personal Care program by ensuring that:

— Provincial contributions and patient days data on monthly returns are reconciled with the data contained in monthly unaudited financial and statistical reports from nursing homes.

— Monthly data are reconciled with annually audited data, and that annually audited data are provided in a format which facilitates such reconciliations.

28. (Section 2.4.6)

(1978-79: No. 19)

It is recommended that the Department of Hospitals and Medical Care improve procedures to monitor and ensure compliance, by the nursing homes to which it contributes funding, with the regulations issued pursuant to the Nursing Homes Act.

29. (Section 2.4.7) *(1978-79: No. 20)*

It is recommended that when employees receive salary increases, the departments in which they are employed must ensure that overtime paid subsequently, for hours worked before the salary increase, is based on pre-increase salary rates.

30. (Section 2.4.8) *(1979-80: No. 22)*

It is recommended that management of the Public Colleges, excepting those that have already done so, document and implement procedures to account for and safeguard all fixed assets under their custodianship.

31. (Section 2.4.9)

It is recommended that the Government Services Revolving Fund ensure that written authorization is obtained from the ultimate payor before special purpose contracts for goods or services are issued.

32. (Section 2.4.10)

It is recommended that all departments and Provincial agencies which use the central salary payroll system review their payroll files to ensure that the information they contain is accurate and up to date. Supervision of clerical staff should also be increased to comply with Chapter 7 of the Treasury Department's Manual of Financial Administration and related employment terms and agreements.

33. (Section 2.4.11) *(1979-80: No.31)*

It is recommended that management of departments and agencies, which use the Government's central data processing and storage facility, review the adequacy of their data and program security arrangements. In this regard, user departments and agencies must accept responsibility for assessing the sensitivity and confidentiality of their data and programs, and selecting the most appropriate security system options.

34. (Section 2.5.1) *(1978-79: No. 33)*

It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies which derive the benefit from their use. It is suggested that achieving this objective may be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.

35. (Section 2.5.1) *(1980-81: No. 34)*

It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.

36. (Section 2.5.2) *(1978-79: No. 34)*

It is recommended that:

a) The Treasury Department negotiate with the Board of Administrators of the Teachers' Retirement Fund to obtain triennial actuarial valuations based on the economic assumptions and methods used when valuing the six pension plans administered by the Province of Alberta and, at March 31 each year, prepare annual interim valuations of the Fund.

b) Consideration be given to reflecting the unrecorded liability arising under the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. The consequent charge to operations could, if desired, be deferred and amortized over a number of years.

c) *Consideration be given to the several options available, any of which if implemented could control the future growth of the pension plans liability.*

37. (Section 2.5.3) *(1979-80: No. 35)*

It is recommended that, in the interest of improved financial reporting and accountability to the Legislative Assembly, all costs of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs. It may also involve an amendment to Legislation.

38. (Section 2.5.3) *(1979-80: No. 36)*

It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial income tax revenue from both corporations and/or individuals is presented net of royalty credits, royalty rebates, small business deductions, renter assistance credits, political contribution deductions or credits allowed to taxpayers and administration fees paid to the Government of Canada.

39. (Section 2.6.1) *(1979-80: No. 45)*

It is recommended that the Alberta Research Council take vigorous action to eliminate the serious financial control problems in its fixed assets, sponsors' projects, sponsors' contracts, accounts receivable, expenditure and payroll accounting systems.

40. (Section 2.6.2)

It is recommended that the Department of Transportation proceed without delay to eliminate the numerous deficiencies in its financial controls and accounting systems.

41. (Section 2.6.3) *(1978-79: No. 25)*

It is recommended that the Department of Hospitals and Medical Care reduce to a minimum the backlog in monthly reconciliations of Health Care Insurance Fund premiums charged, with premiums received from employers, and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures.

42. (Section 2.6.3) *(1980-81: No. 42)*

It is recommended that the Department of Hospitals and Medical Care reconcile the Health Care Insurance Fund's bank accounts more promptly and ensure that these reconciliations are carefully reviewed and approved by supervisory personnel.

43. (Section 2.6.4)

It is recommended that the Treasury Department continue with efforts to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

44. (Section 2.6.5)

It is recommended that the Treasury Branches Deposits Fund obtain formal Ministerial approvals for transfers of funds, both to date and in future, from surplus to the General Revenue Fund.

45. (Section 2.8.1) *(1978-79: No. 43)*

It is recommended that the objectives of all programs be published in as specific a manner as possible, with quantitative data being provided wherever practicable as measures of the intended results to be achieved by the expenditure of the funds requested for the programs. At the end of each fiscal year, reports should be prepared on behalf of the responsible Ministers evaluating the achievements, resulting from the expenditure of funds for programs, in terms of the objectives and quantitative data given in the estimates. These reports (based on information gen-

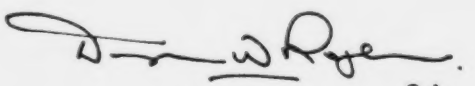
erated by systems subject to audit by the Auditor General) should result from organized, documented and systematic evaluations of program activities. The reports would be laid before the Legislative Assembly by the appropriate Ministers as a part of their accountability reporting.

46. (Section 2.8.1) *(1979-80: No. 34)*

It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills should be supported by more extensive financial information on major capital expenditure projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future costs in relation to the original cost forecast, and the total estimated cost for each project. (This recommendation should not be interpreted as suggesting that the Legislative Assembly should approve other than the next fiscal year's expenditures on these projects.)

47. (Section 2.8.2)

It is recommended that, if the Legislative Assembly considers it worthwhile, and/or the Government determines that more timely reporting should be an objective, the Government should initiate a study involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting by the Province of Alberta.



C.A.
Auditor General

Edmonton, Alberta
February 14, 1983

AUDITOR GENERAL ACT

CHAPTER A-49

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the officers and employees of the Legislative Assembly,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee of the Legislative Assembly on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

1977 c56 s1(1);1978 c29 s13;1978 c73 s2;1980 c61 s18

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

1977 c56 s1(2)

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

1977 c56 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

1977 c56 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

1977 c56 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

1977 c56 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

1977 c56 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

1977 c56 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendation of the Auditor General, the Select Standing Committee may, by resolution, direct that any regulation, order or directive made under the *Public Service Act* or the *Financial Administration Act* or any allocation, designation or other decision of the Public Service Commissioner under the *Public Service Act* be inapplicable to, or be varied in its operation in respect of, the Office of the Auditor General.

(3) A direction made under subsection (2) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

1977 c56 s9

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or exam-

ination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

1977 c56 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

1977 c56 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

1977 c56 s12

Financing of operations

13(1) The Auditor General shall submit annually to the Select Standing Committee an estimate of the sum that will be required to be provided by the Legislature for the payment of the salaries, allowances and expenses of the Office of the Auditor General during the next ensuing fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on completion of the review, the chairman of the Committee shall submit the estimate to the Treasurer for inclusion in the estimates.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

1977 c56 s13

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

1977 c56 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explan-

ations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

1977 c56 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

1977 c56 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the

Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend

the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30